



California Public Employees' Retirement System

Performance Review – December 31, 2011

*Michael Schlachter, CFA
Managing Director & Principal*

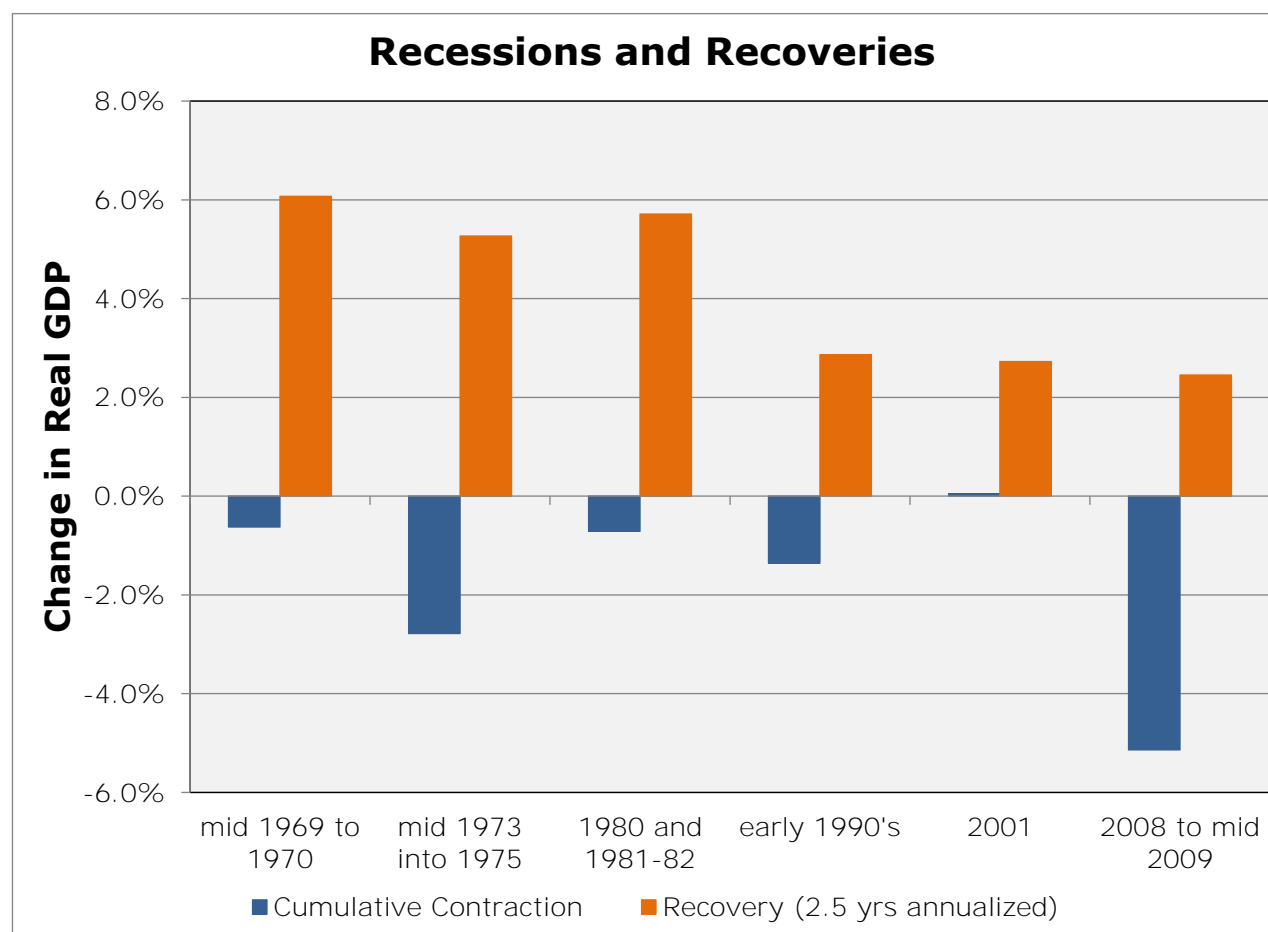
*Andrew Junkin, CFA
Managing Director & Principal*

April 2011



Mild Recovery

- Recession of 2008-09 most severe since World War II
- Recovery has been mild, particularly relative to the contraction



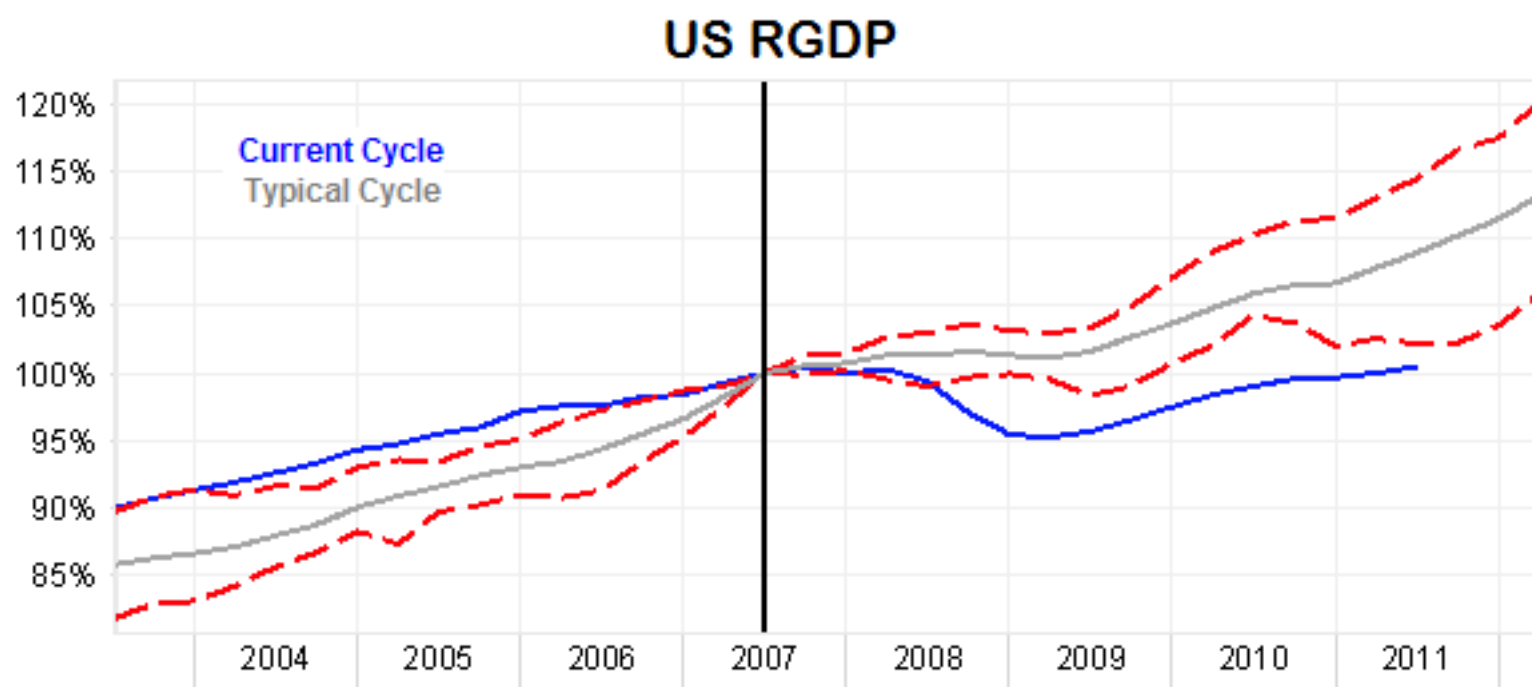
Note: Recessions of 1980 and 1981-82 are considered to be separate incidents, but have been combined above for illustrative purposes.



Deleveraging Cycle

The next 4 slides compare certain economic factors throughout the current recovery (in blue) versus the average cycle during the last 50 years (in gray). The red dotted lines provide a sense of the historical range of outcomes.

Fall in real GDP has been much larger with a slower recovery



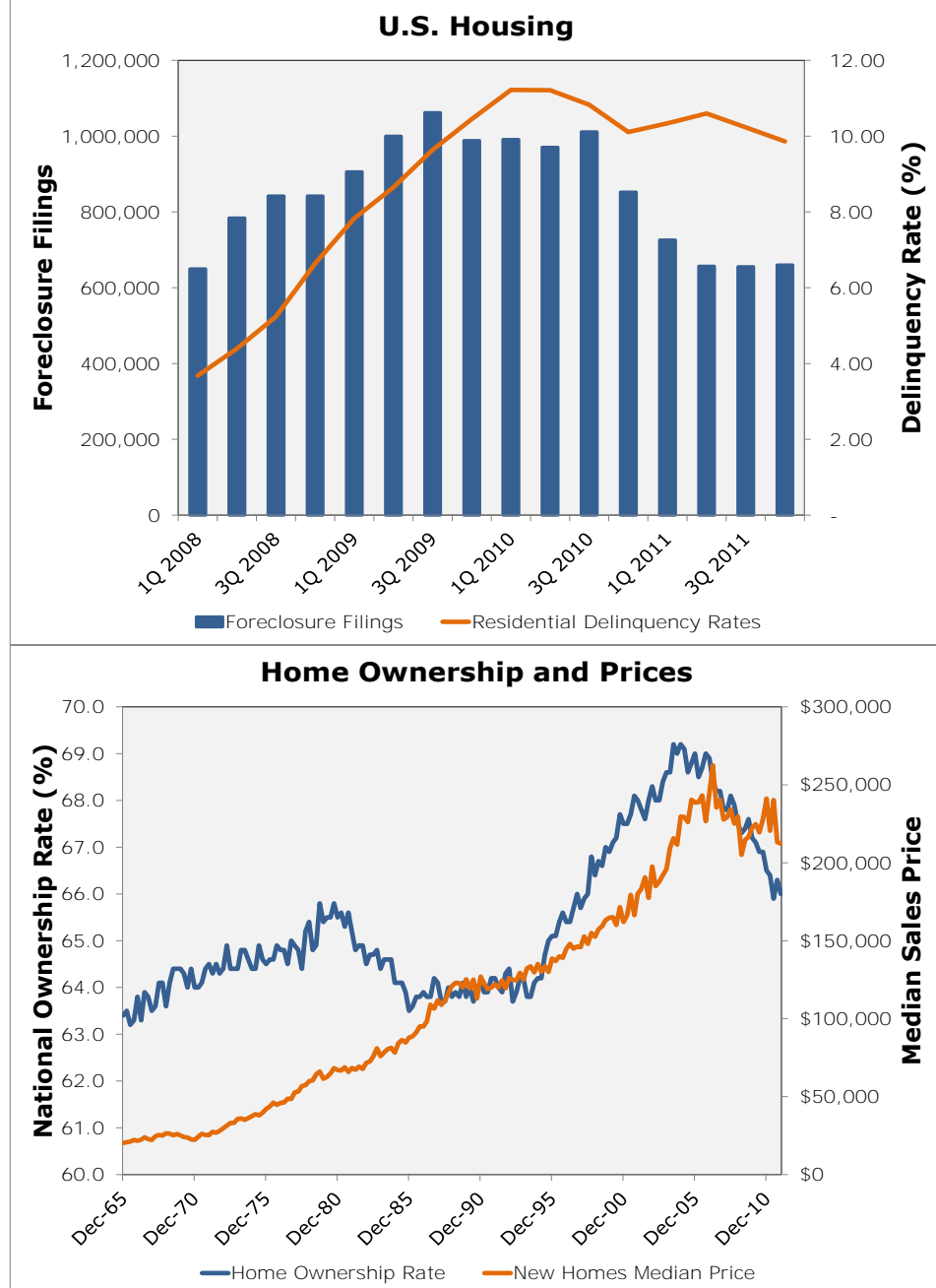
Data sources: Bridgewater Associates

Re-establishing the Housing Market



- Dramatic increase in foreclosures
 - 2006 = <1 million
 - 2007 = 1.7 million
 - 2008 = 3.2 million

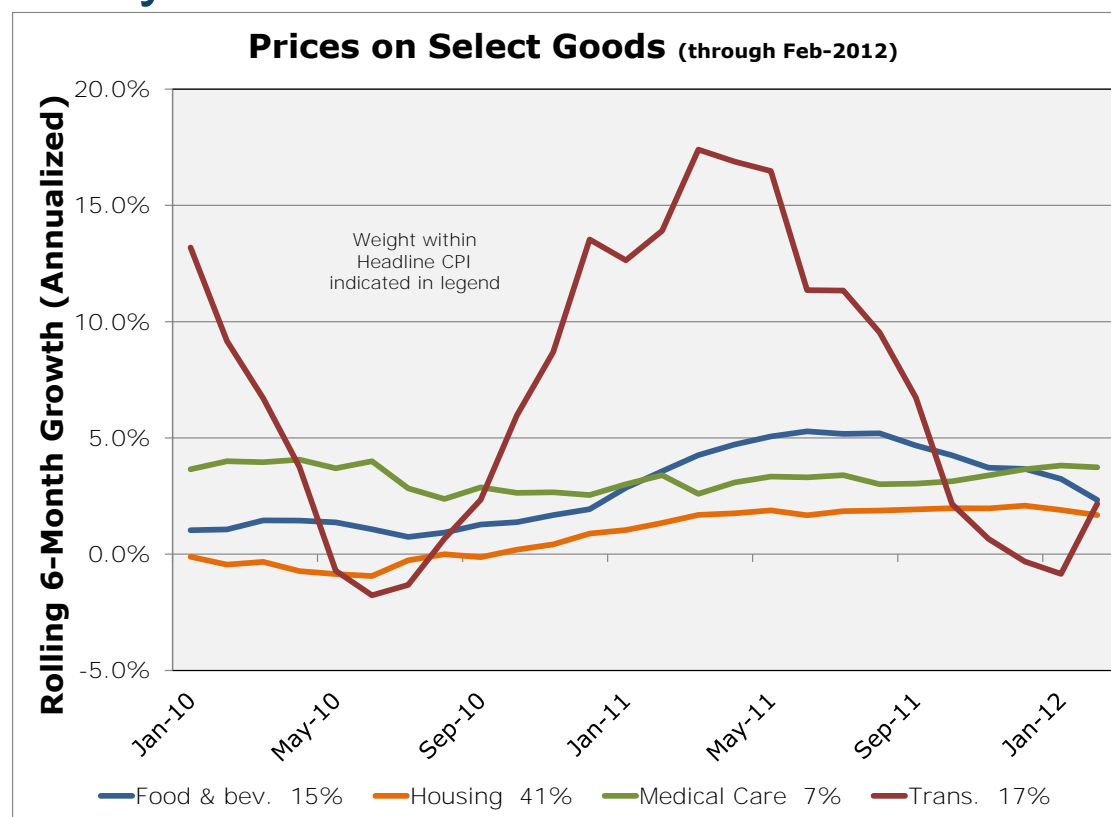
- Since peak ownership (Dec-2004), 10 mil new housing units
 - Owner occupied = 1 mil
 - Renter occupied = 6 mil
 - Vacant = 3 mil





Inflation Accommodating...so far

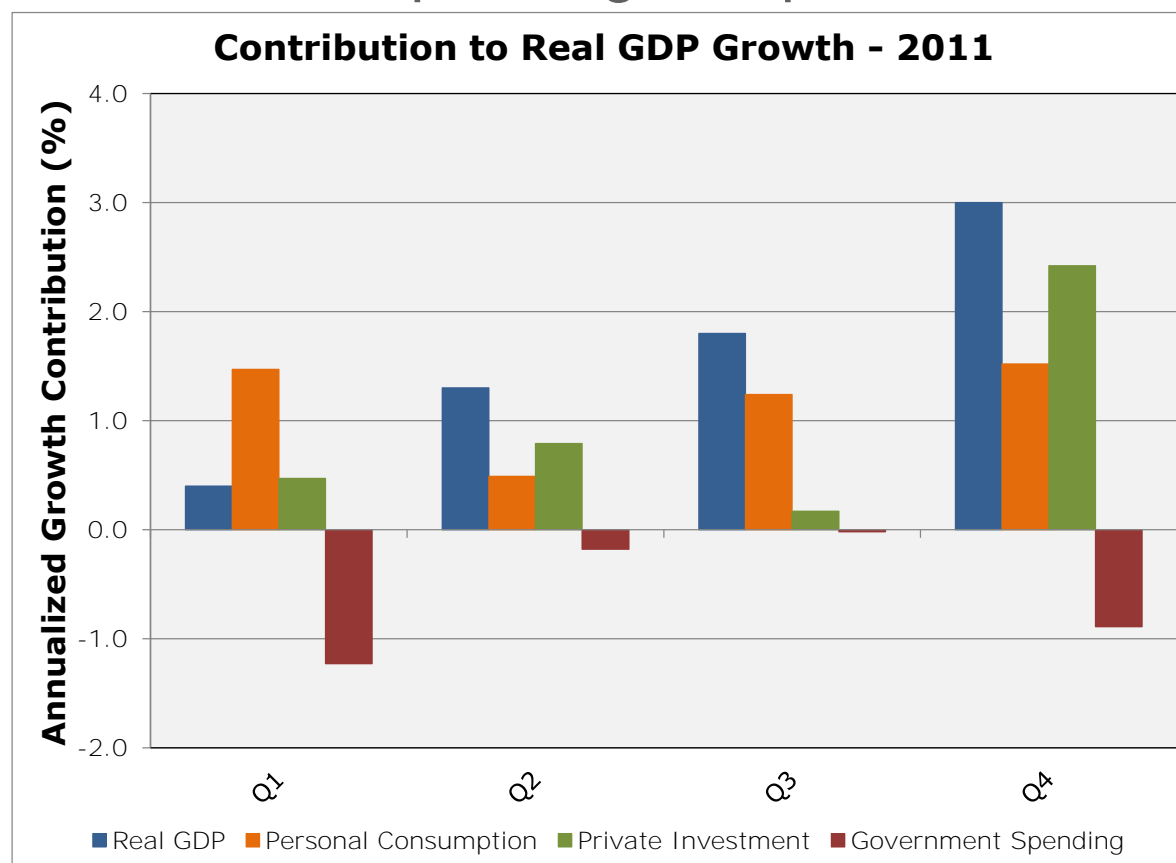
- Headline inflation for 2011 = 3.0%
- Everyday costs – food and energy – have been more problematic
- High inflation can produce a headwind for consumers and slow the recovery





Waiting on Consumer Spending

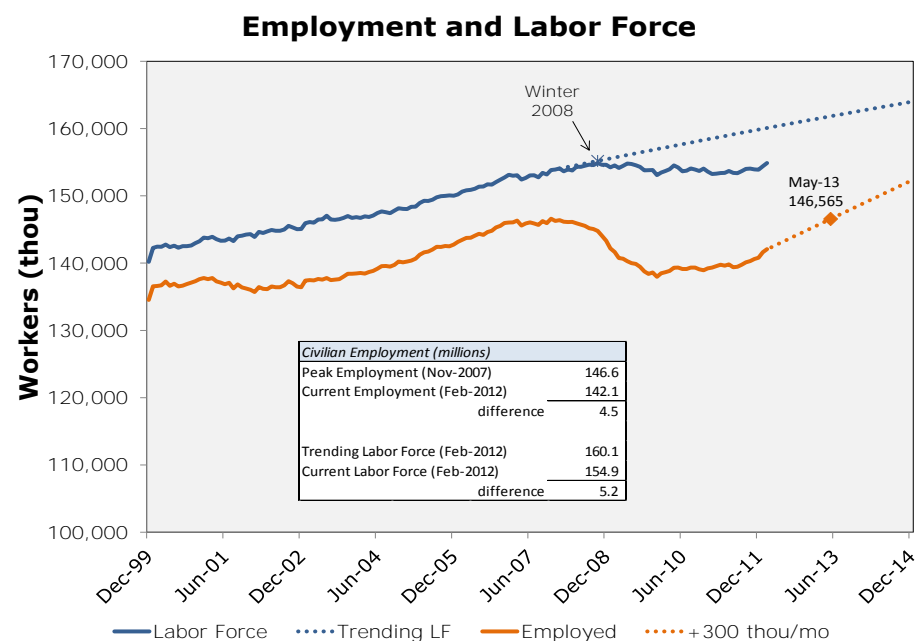
- Consumer spending comprises 70% of GDP
- Growth slowed in 2011
 - Real GDP Growth of 1.6% versus 3.1% in 2010
 - Moderate consumer spending, but positive





Employment Constraints

- High unemployment continues to restrain growth
 - Labor force has not been growing
 - Jobs slowly coming back



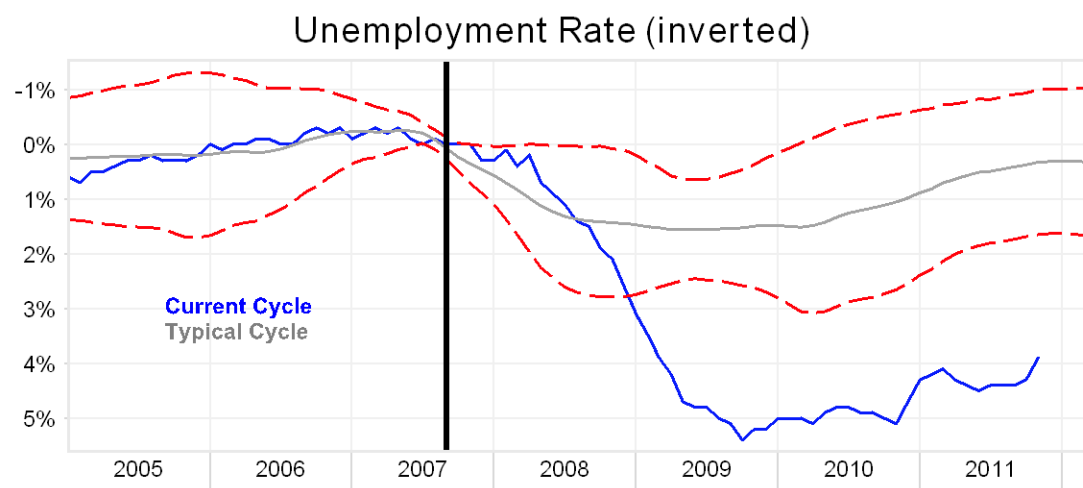
- Wage growth remains stagnant
- Weak employment and wage growth translates to weak consumer demand



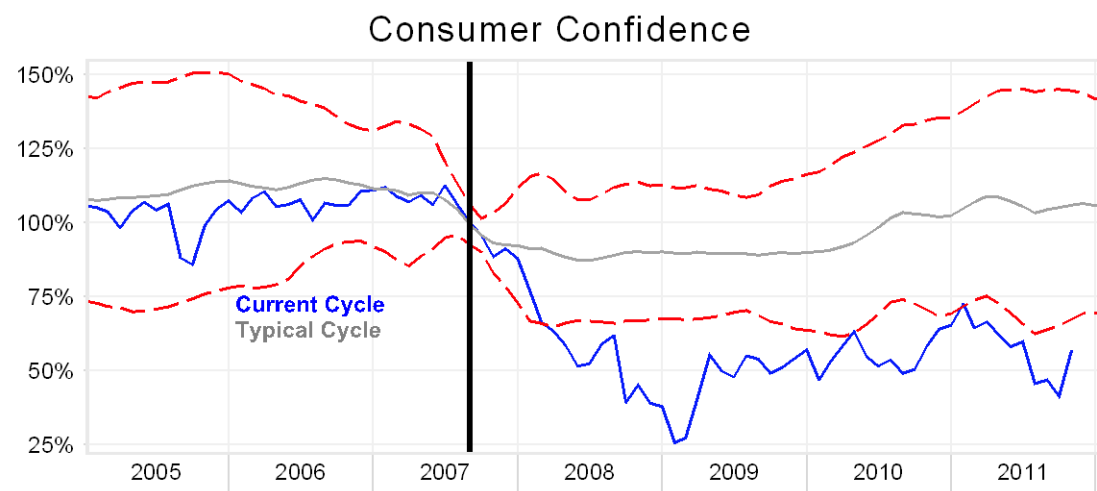


Deleveraging Cycle

Unemployment has been much more depressed



Consumer confidence is also much worse than a typical cycle

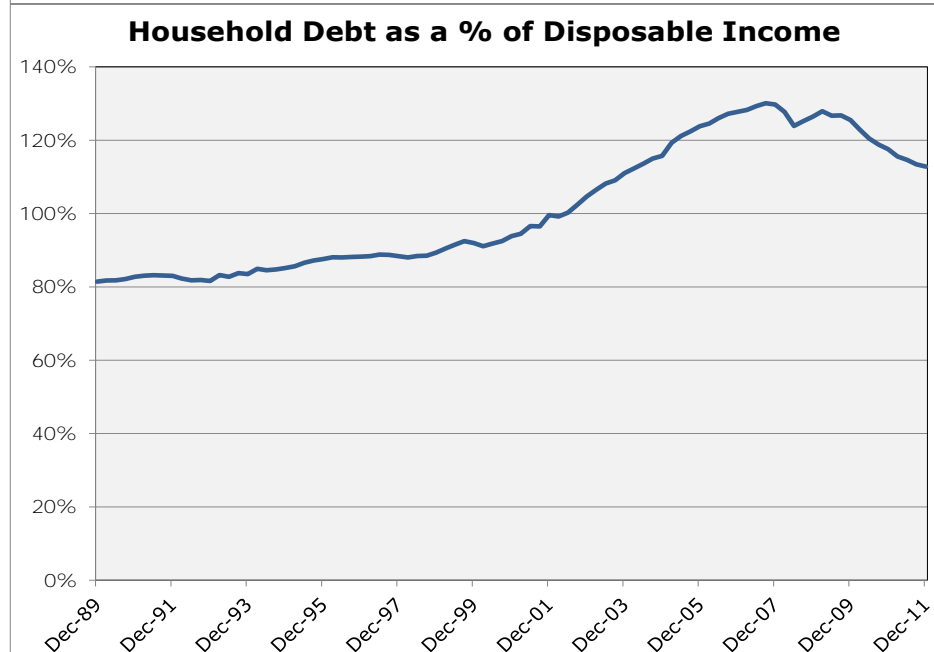
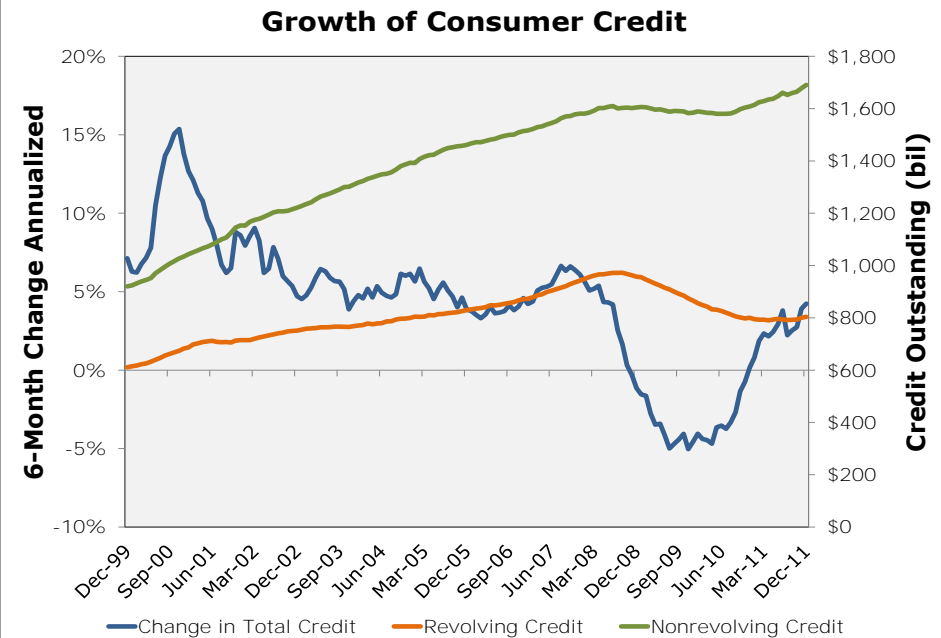


Data sources: Bridgewater Associates



Debt Constraints

- Consumers again willing to utilize debt
 - Revolving credit (i.e. credit cards) has flat lined
 - Non-revolving credit (i.e. autos, school loans) moving higher
- Household debt, which includes mortgages, continuing to fall versus disposable income

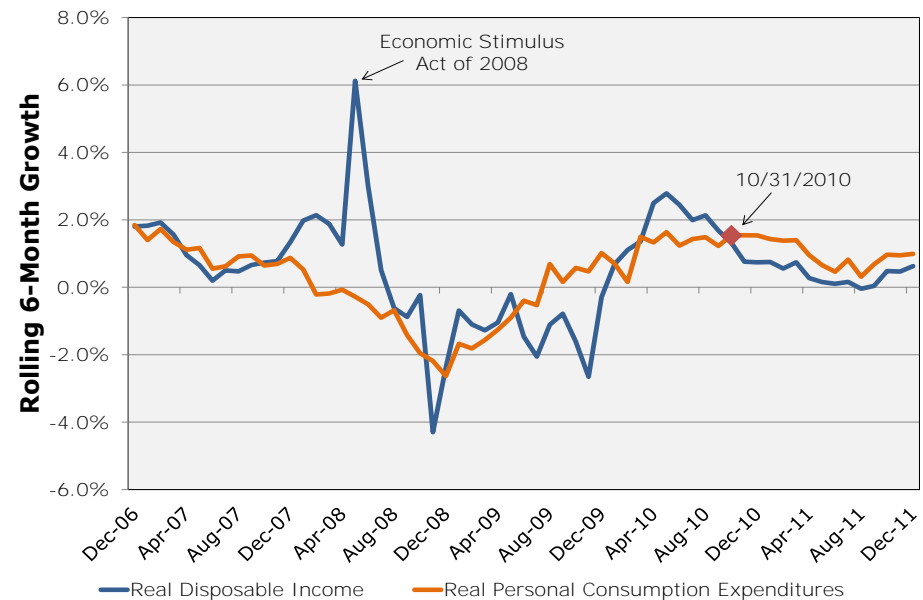




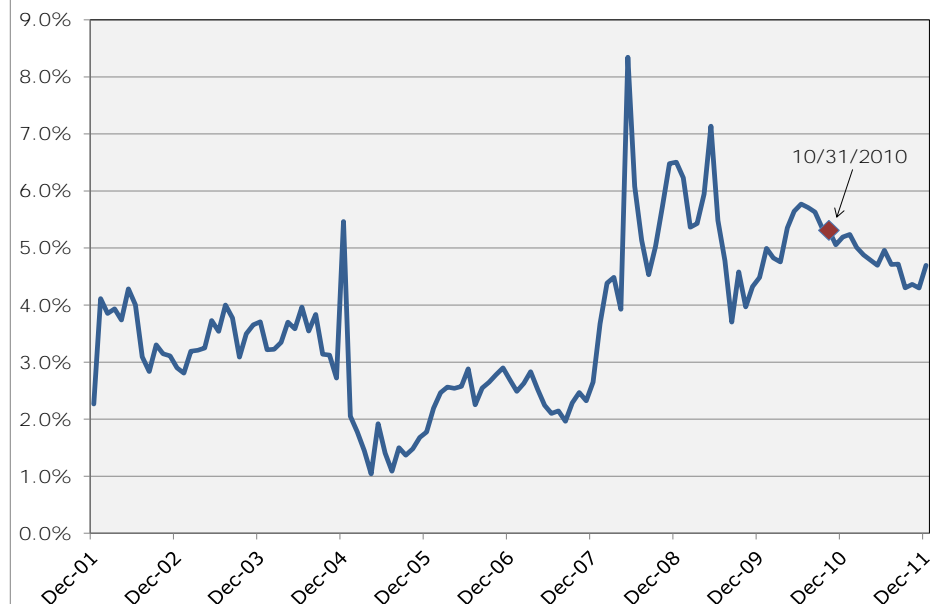
Drop in Savings

- Growth in personal consumption has been outpacing disposable income growth, with the difference coming from savings
- Assuming mild growth in real disposable income, savings rate would have to fall to ~3.4% to produce 2% real growth in personal consumption

Income versus Spending



Personal Savings Rate



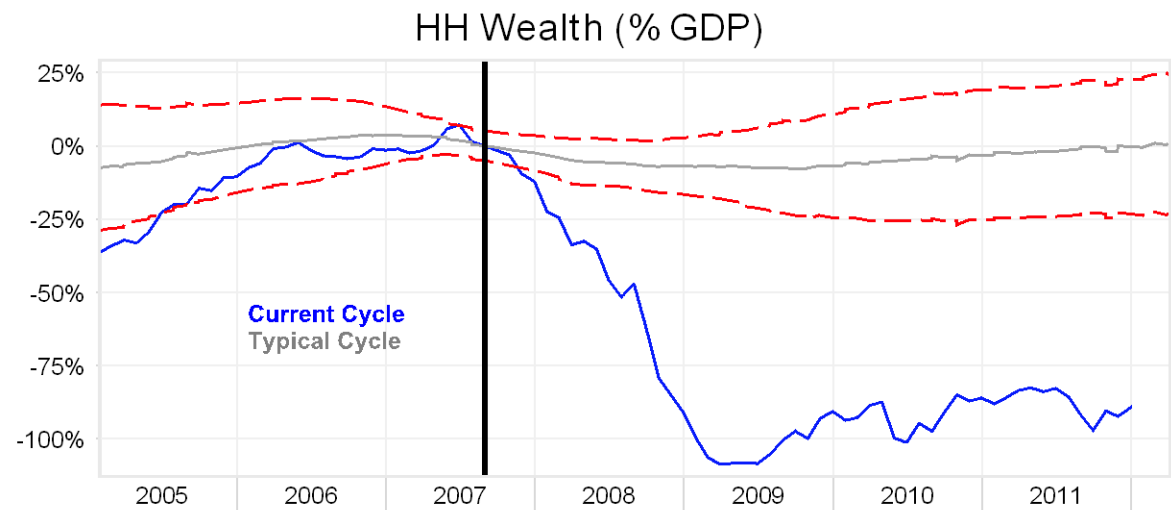
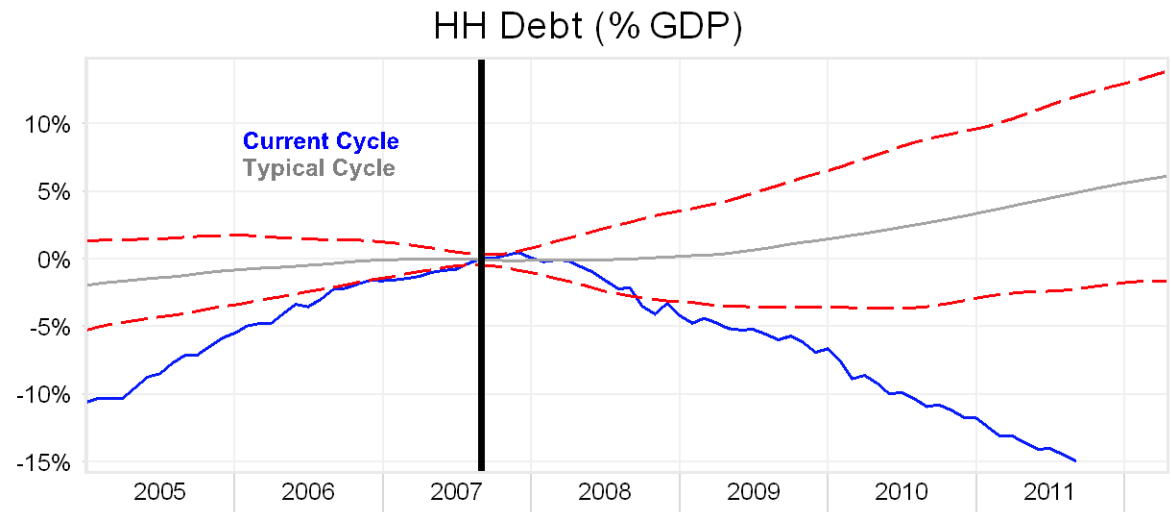


Deleveraging Cycle

After a typical recession, debt-financed spending supports a recovery

Today, household debt is 15% points lower than the height of the previous cycle

Decrease in household wealth has been severe, particularly with respect to homes and equities

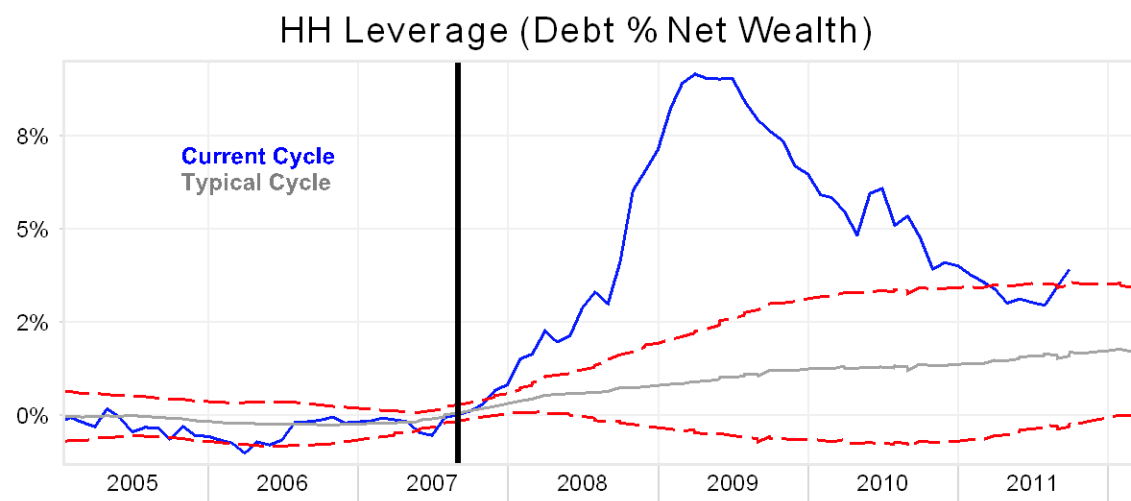


Data sources: Bridgewater Associates

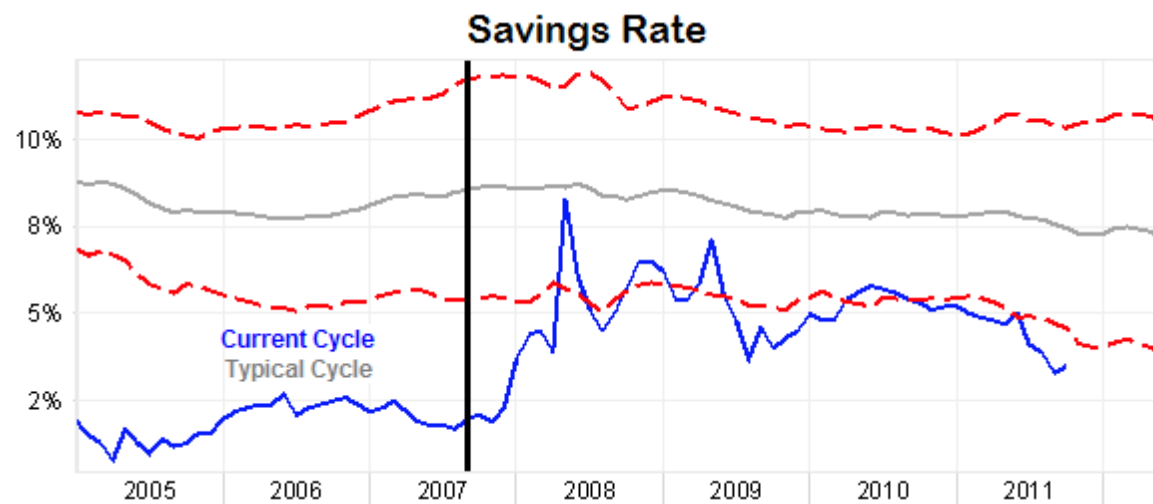


Deleveraging Cycle

Leverage increased dramatically as asset prices fell faster than debt levels were cut



Savings increased despite low rates – although the rate is still lower than typical cycles



Data sources: Bridgewater Associates



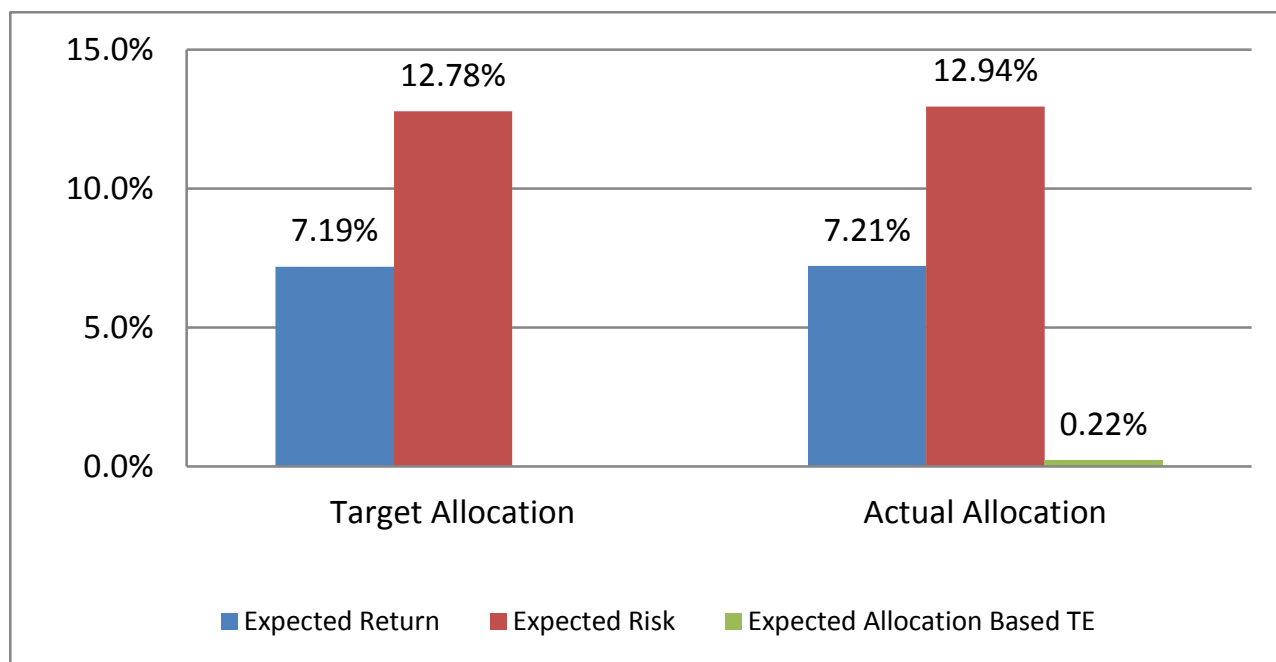
Storm Clouds on the Horizon

- Provisions of current tax law, including 2%-point cut in payroll tax, will expire
- Extended unemployment benefits also set to expire
- Deficit reduction committee's sequestration cuts equal \$1.2 tril

“Resulting fiscal contraction
– consisting of both tax
increases and spending cuts
– would be in the
neighborhood of 3.5% of
gross domestic product.”
- Alan Blinder, Clinton
Appointee to the Federal
Reserve's Board of
Governors

“The Congressional Budget
Office predicts...(a federal
revenue) increase of
\$512bn...equivalent to 2.9
per cent of GDP.”
- Martin Feldstein, Chairmen
of Council of Economic
Advisors under Reagan

CalPERS Investments are Expected to Provide Return

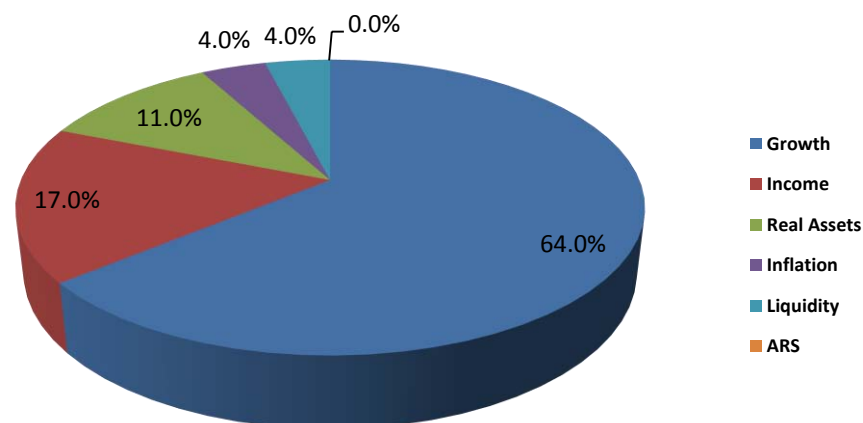


Forecasts using Wilshire's 2012 Asset Class Assumptions

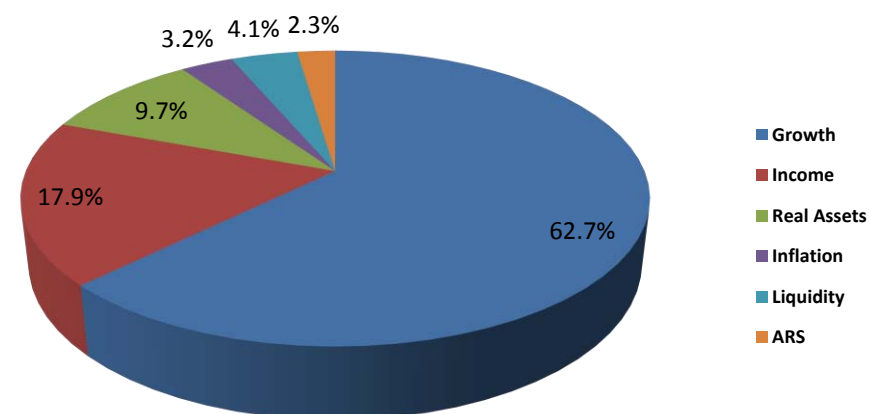
Asset and Risk Allocation



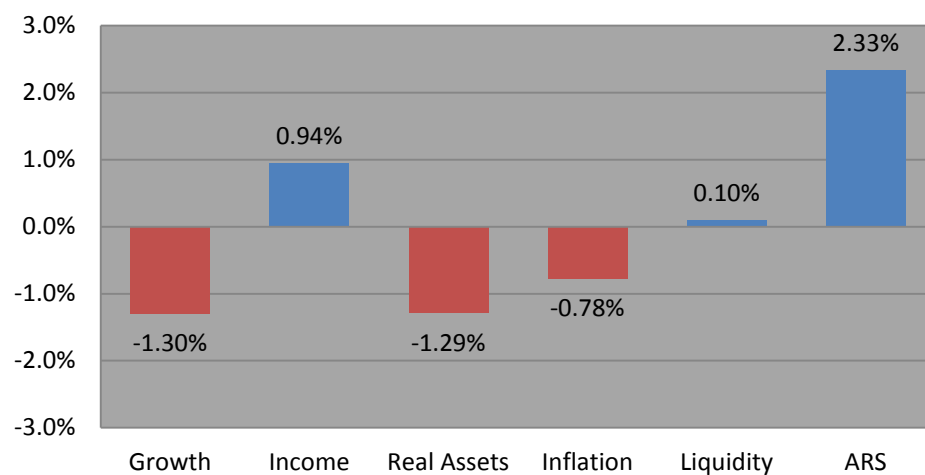
Target Asset Allocation



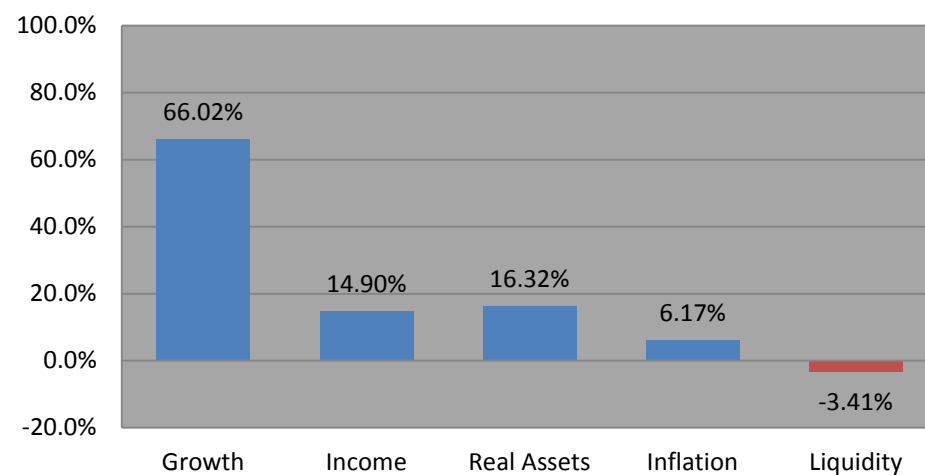
Actual Asset Allocation



PERS Asset Allocation Variance



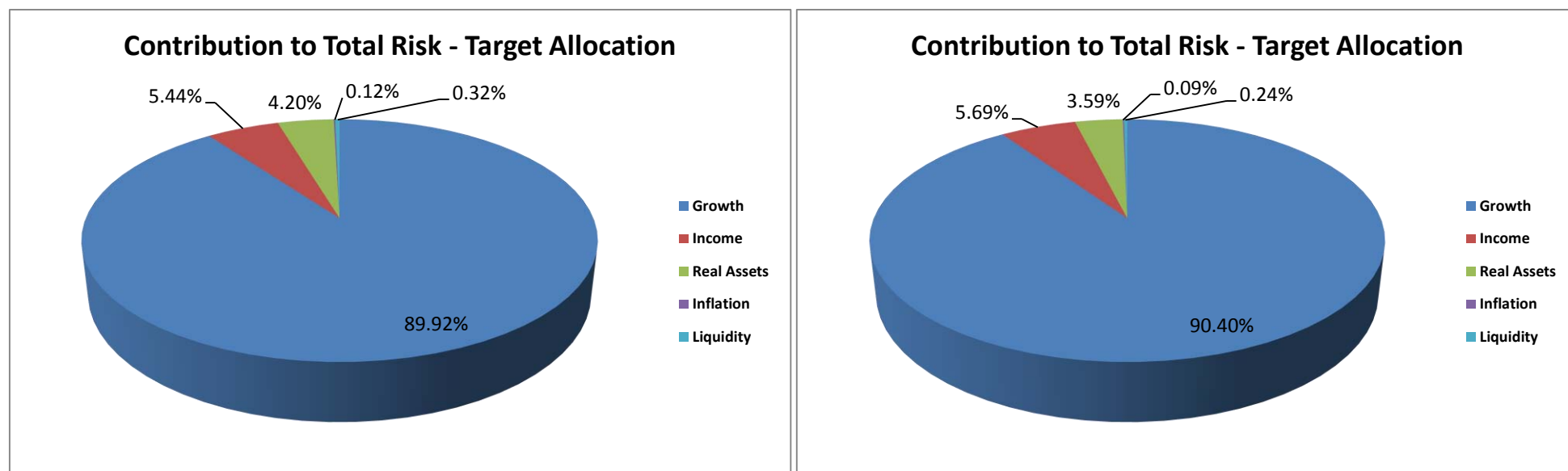
Contribution to TF Tracking Error



Forecasts using Wilshire's 2012 Asset Class Assumptions.



Drivers of Expected Tracking Error



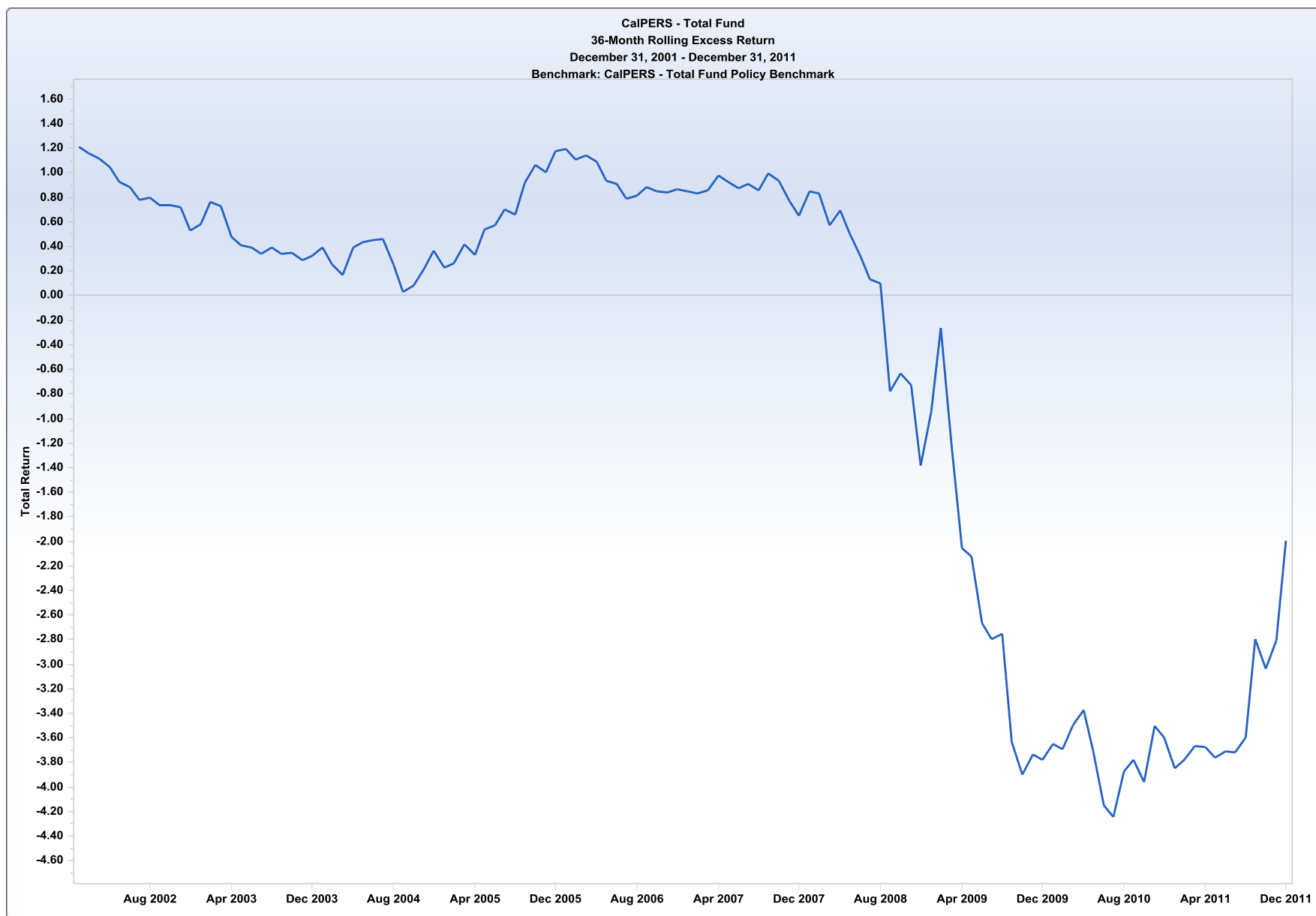
- This tracking error forecast is based on asset allocation variance only.
- Other sources of tracking error (structural within asset classes, manager/program specific source of tracking error, covariance) are not considered here.



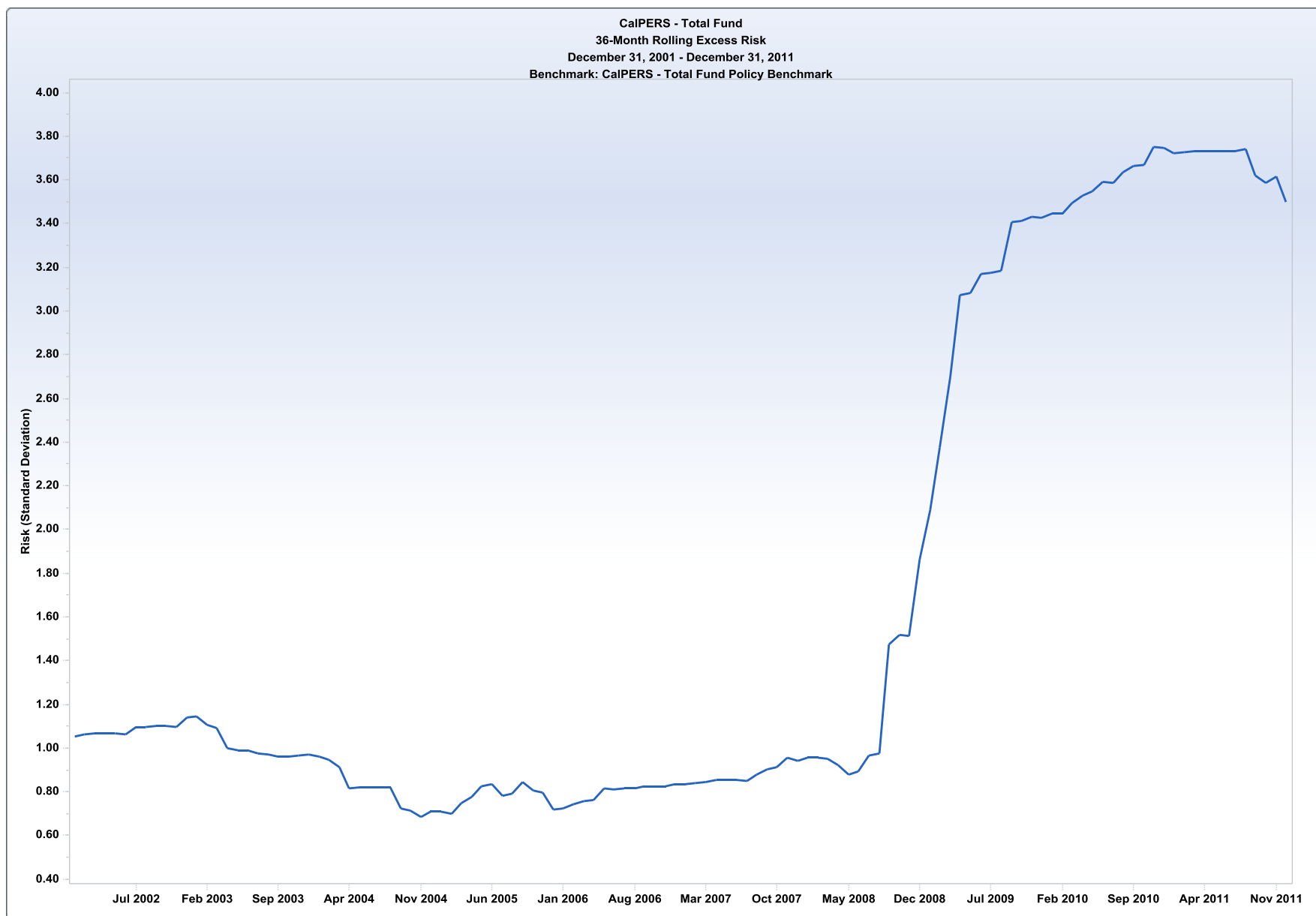
Total Fund – Performance

		Five-Year Ratios							
	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$225.0 bil	2.9%	1.1%	8.3%	0.4%	5.1%	\$26.8 bil	-0.1	-0.7
<i>Total Fund Policy Benchmark</i> ²		1.9%	0.9%	10.6%	2.6%	5.9%		0.1	0.0
<i>Actuarial Rate</i>		1.9%	7.8%	7.8%	7.8%	7.8%			
<i>TUCS Public Fund Median</i>		5.3%	1.0%	10.4%	2.2%	5.4%			
<i>Wilshire Large Fund Universe Median</i>		4.3%	1.1%	10.4%	1.9%	5.5%			
GROWTH	140.5	4.0%	-3.7%	11.6%	-0.5%	4.7%	\$27.9 bil	-0.1	-0.4
<i>Growth Policy Benchmark</i> ³		1.7%	-5.9%	12.0%	0.5%	5.0%		-0.1	0.0
PUBLIC EQUITY	108.4	7.2%	-8.0%	12.9%	-1.8%	4.0%	\$20.5 bil	-0.2	-0.6
<i>Public Equity Policy Benchmark</i> ⁴		7.2%	-8.1%	13.2%	-1.0%	4.4%		-0.1	0.0
<i>TUCS Equity Median</i>		9.4%	-3.7%	14.2%	-0.8%	4.4%			
PRIVATE EQUITY	32.1	-5.6%	12.4%	8.7%	8.2%	8.9%	\$10.2 bil	0.6	-0.1
<i>Private Equity Policy Benchmark</i> ⁵		-16.3%	1.4%	9.4%	9.3%	7.0%		0.6	0.0
INCOME	40.4	1.7%	12.4%	13.6%	8.8%	8.1%	\$5.2 bil	1.1	0.1
<i>Income Policy Benchmark</i> ⁶		1.9%	13.9%	9.8%	8.5%	7.6%		1.1	0.0
<i>TUCS Fixed Income Median</i>		1.9%	7.2%	10.7%	6.5%	6.5%			
REAL ASSETS ⁷	21.8	0.2%	9.9%	-15.8%	-11.5%	2.6%	\$2.5 bil	-0.8	-1.2
<i>Real Assets Policy Benchmark</i> ⁸		3.0%	14.4%	0.9%	5.1%	9.7%		0.5	0.0
INFLATION	7.2	4.5%	8.4%	10.6%	-.-%	-.-%	\$0.6 bil	N/A	N/A
<i>Inflation Policy Benchmark</i> ⁹		4.2%	7.4%	8.9%	-.-%	-.-%		N/A	N/A
LIQUIDITY	9.2	0.6%	3.9%	1.6%	2.5%	2.6%	\$0.4 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ¹⁰		0.7%	4.3%	1.7%	2.6%	2.5%		N/A	N/A
ABSOLUTE RETURN STRATEGIES ¹¹	5.2	-1.1%	-2.3%	6.2%	1.1%	-.-%		-0.1	-0.9
<i>Absolute Return Strategies Policy Benchmark</i> ¹¹		1.3%	5.6%	5.8%	7.7%	-.-%		6.4	0.0
CURRENCY + ASSET ALLOCATION TRANSITION	0.6	-.-%	-.-%	-.-%	-.-%	-.-%			

Total Fund – Rolling Excess Returns



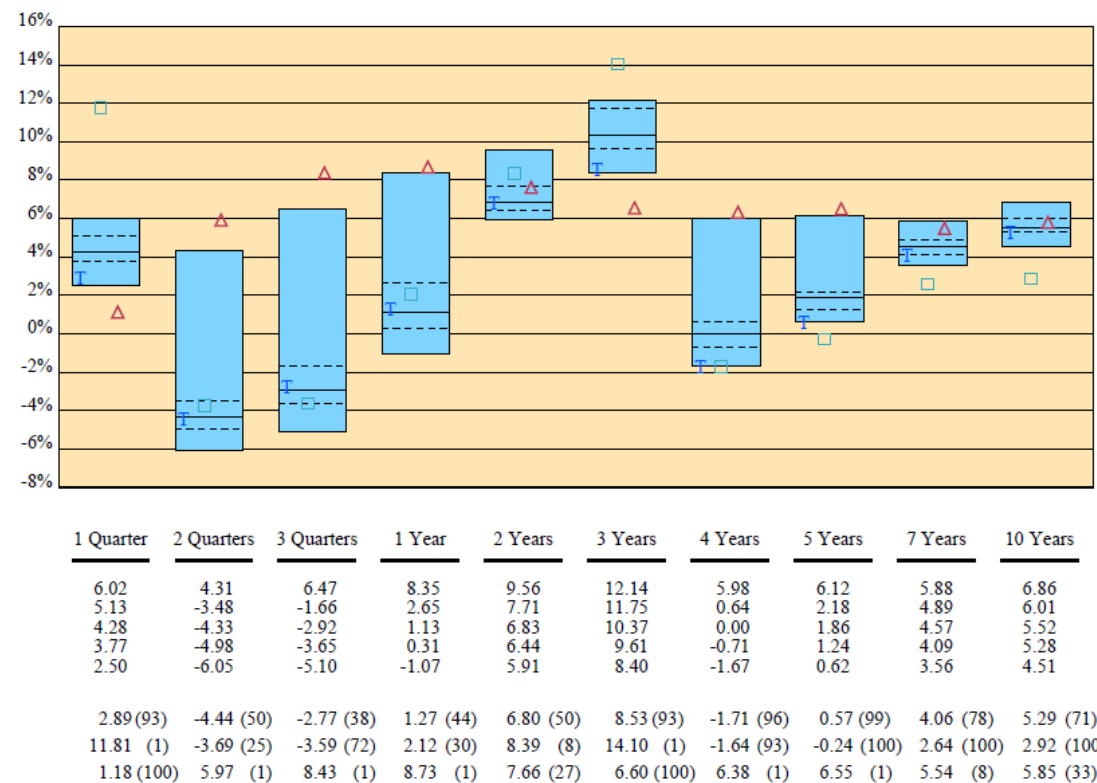
Total Fund – Rolling Tracking Error



Total Fund – Universe Comparison



California Public Employees Retirement
Total Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



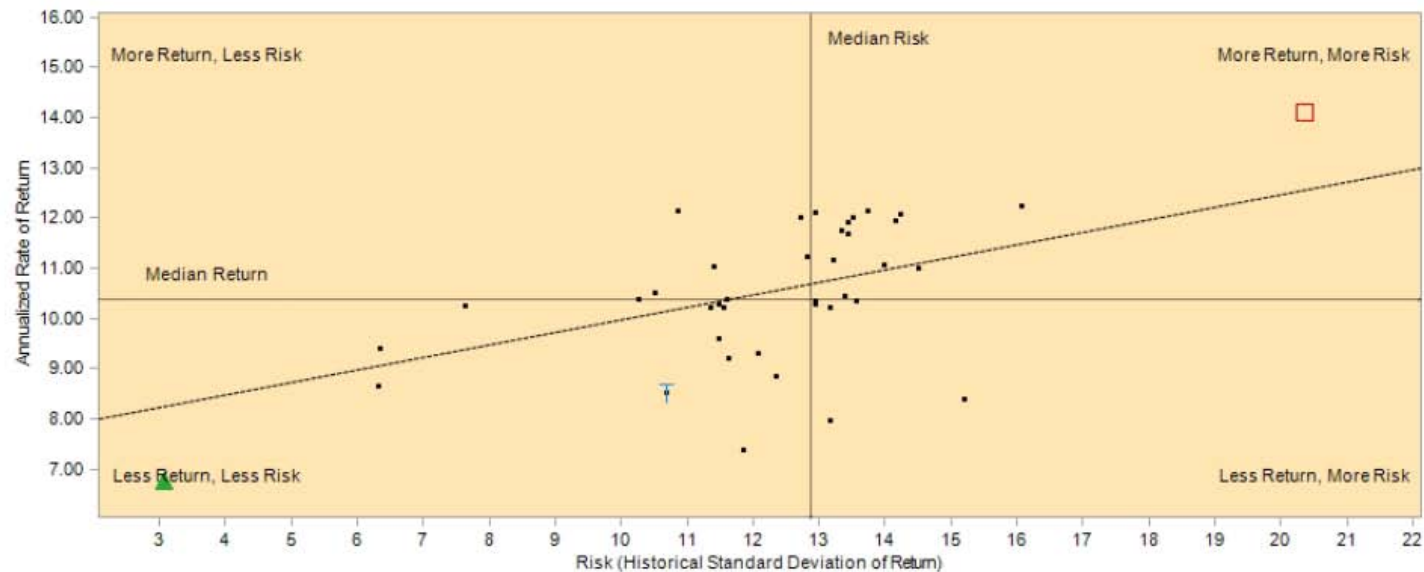
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Risk and Return – Universe Analysis



California Public Employees Retirement System Risk vs Total Returns of Public Funds > \$10 Billion 3 Years Ending December 31, 2011



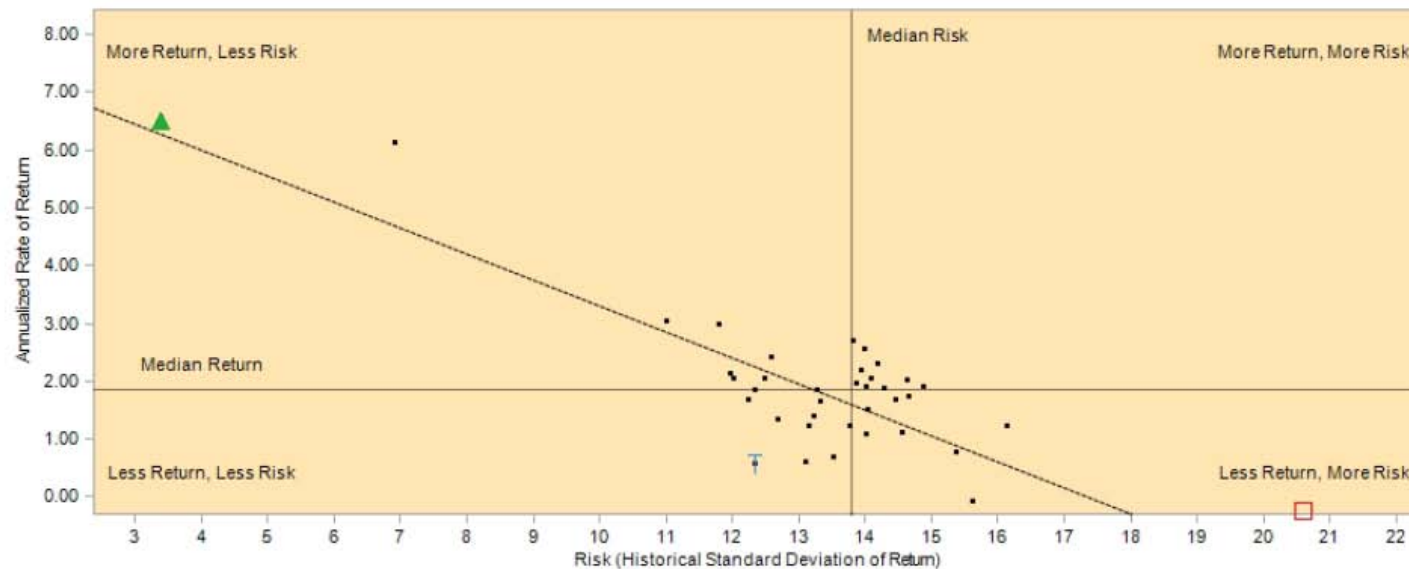
Alpha: 7.47
Beta: 0.25
R-Squared: 0.16

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	10.69	88	8.53	93
S&P 500	20.37	1	14.10	1
Barclays Aggregate	3.08	100	6.77	100
Median	12.88		10.38	

Risk and Return – Universe Analysis



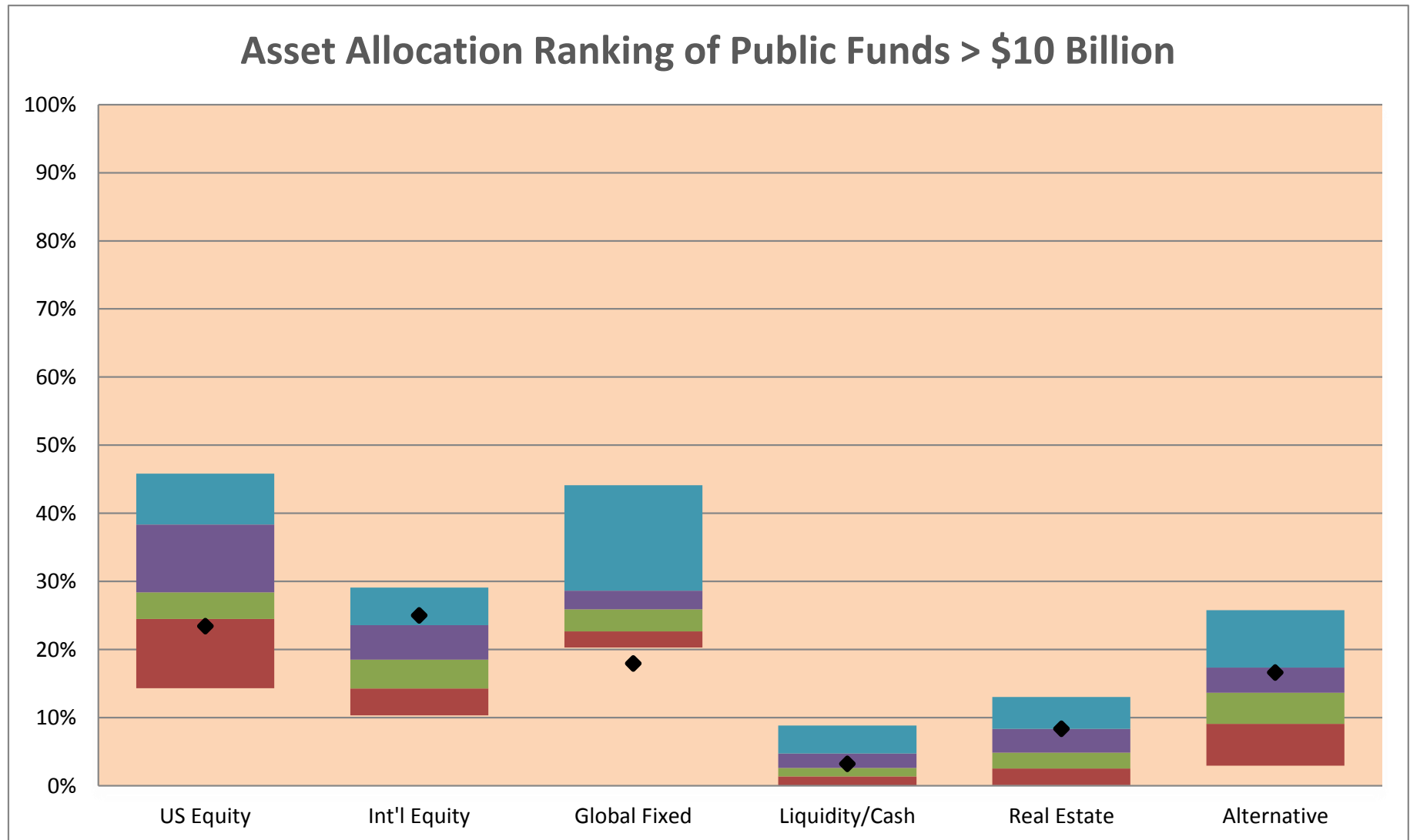
California Public Employees Retirement System
Risk vs Total Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



Alpha: 7.81
Beta: -0.45
R-Squared: 0.5

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	12.34	80	0.57	99
□ S&P 500	20.61	1	-0.24	100
▲ Barclays Aggregate	3.38	100	6.50	1
Median	13.79		1.85	

Asset Allocation Ranking – Universe Analysis



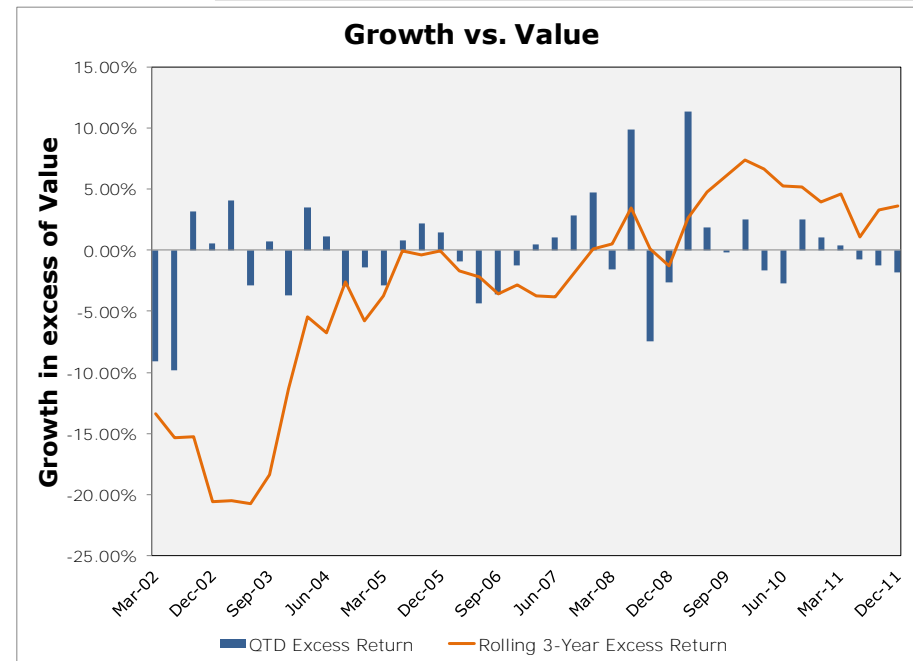
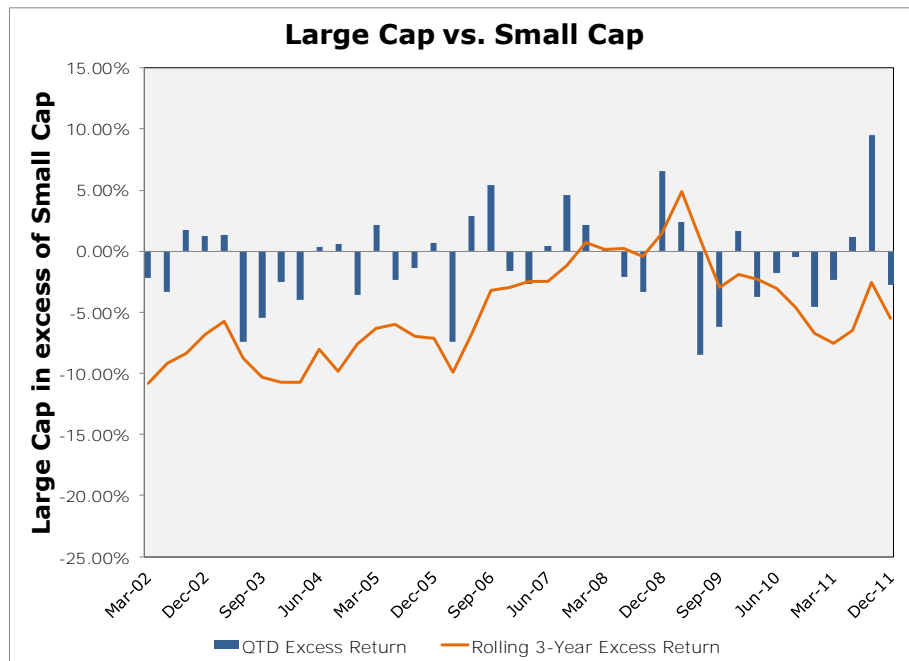
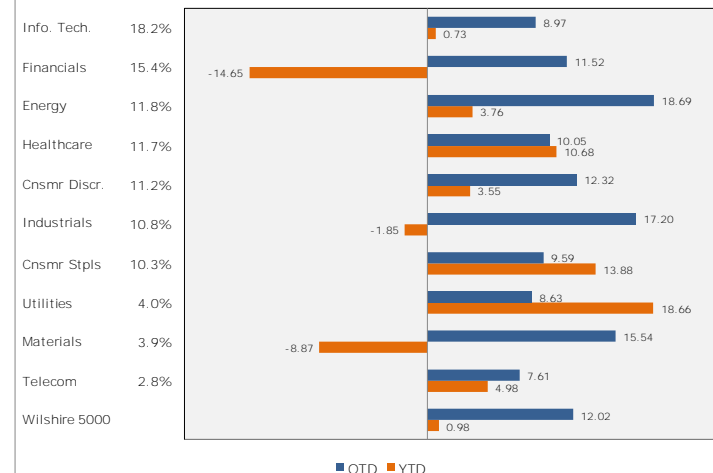
CalPERS	US Equity	Int'l Equity	Global Fixed	Liquidity/Cash	Real Estate	Alternative
Weight%(Rank)	23.44% (81)	24.99% (16)	17.94% (99)	3.22% (37)	8.37% (22)	16.61% (28)

U.S. Capital Markets: Equity



December 31, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	12.0	1.0	1.0	14.9	0.1	3.8
Wilshire U.S. Large Cap	11.7	1.6	1.6	14.2	0.0	3.4
Wilshire U.S. Small Cap	14.9	-3.4	-3.4	20.9	2.3	7.3
Wilshire U.S. Large Growth	10.7	-0.7	-0.7	16.1	1.6	2.6
Wilshire U.S. Large Value	12.7	3.7	3.7	12.3	-1.8	4.0
Wilshire U.S. Small Growth	13.6	-1.6	-1.6	23.6	3.7	6.7
Wilshire U.S. Small Value	16.1	-5.3	-5.3	18.1	0.9	7.8
Wilshire REIT Index	15.4	9.2	9.2	21.8	-2.0	10.2
MSCI USA Minimum Volatility Index	10.4	12.0	12.0	14.4	2.5	4.0
FTSE RAFI U.S. 1000 Index	12.4	0.1	0.1	19.5	1.1	n.a.

Wilshire 5000 Sector Weight & Return (%)



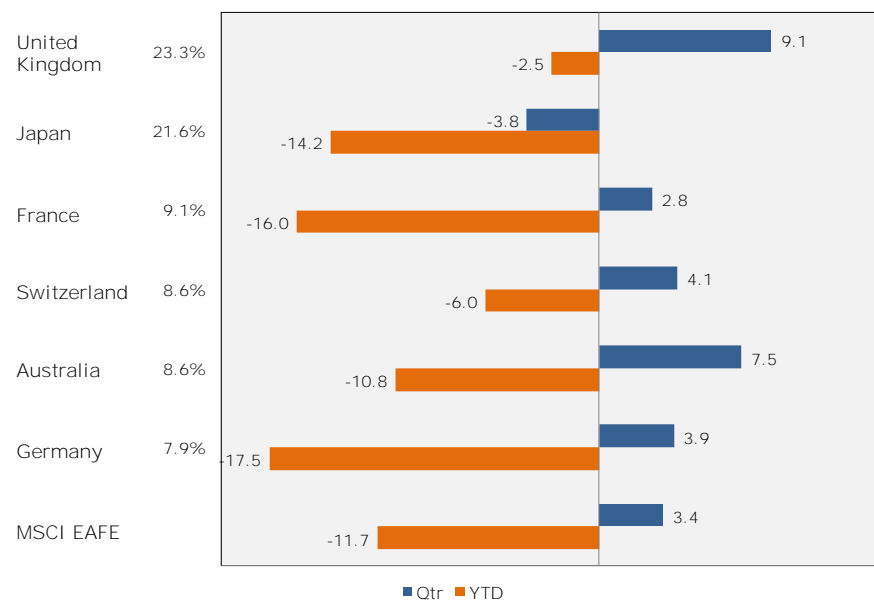
Data sources: Wilshire Compass, Wilshire Atlas

Non-U.S. Capital Markets

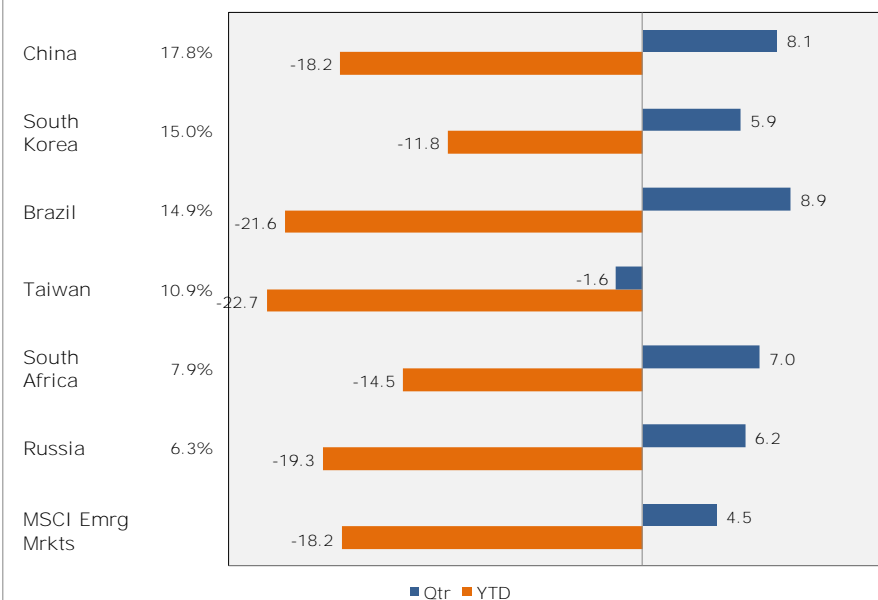


December 31, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
MSCI ACWI ex-US (\$g)	3.8	-13.3	-13.3	11.2	-2.5	6.8
MSCI EAFE (\$g)	3.4	-11.7	-11.7	8.2	-4.3	5.1
MSCI Emerging Markets (\$g)	4.5	-18.2	-18.2	20.4	2.7	14.2
MSCI Frontier Markets (\$g)	-1.9	-18.4	-18.4	5.3	-5.3	n.a.
MSCI EAFE Minimum Volatility Idx	1.7	-0.3	-0.3	8.4	0.5	9.8
FTSE RAFI Developed ex-US Index	2.8	-14.3	-14.3	9.9	-3.2	n.a.
JPM Non US Global Bond	-0.2	5.9	5.9	5.5	7.8	8.6
JPM Non US Global Bond Hedged	0.8	6.0	6.0	3.9	4.9	4.7
JPM EMBI Global	5.1	8.5	8.5	15.9	8.1	11.0
Euro vs. Dollar	-3.2	-3.2	-3.2	-2.3	-0.4	3.8
Yen vs. Dollar	0.2	5.4	5.4	5.6	9.1	5.5
Pound vs. Dollar	-0.2	-0.7	-0.7	2.6	-4.5	0.6

MSCI EAFE: Largest Countries and Return



MSCI EM: Largest Countries and Return

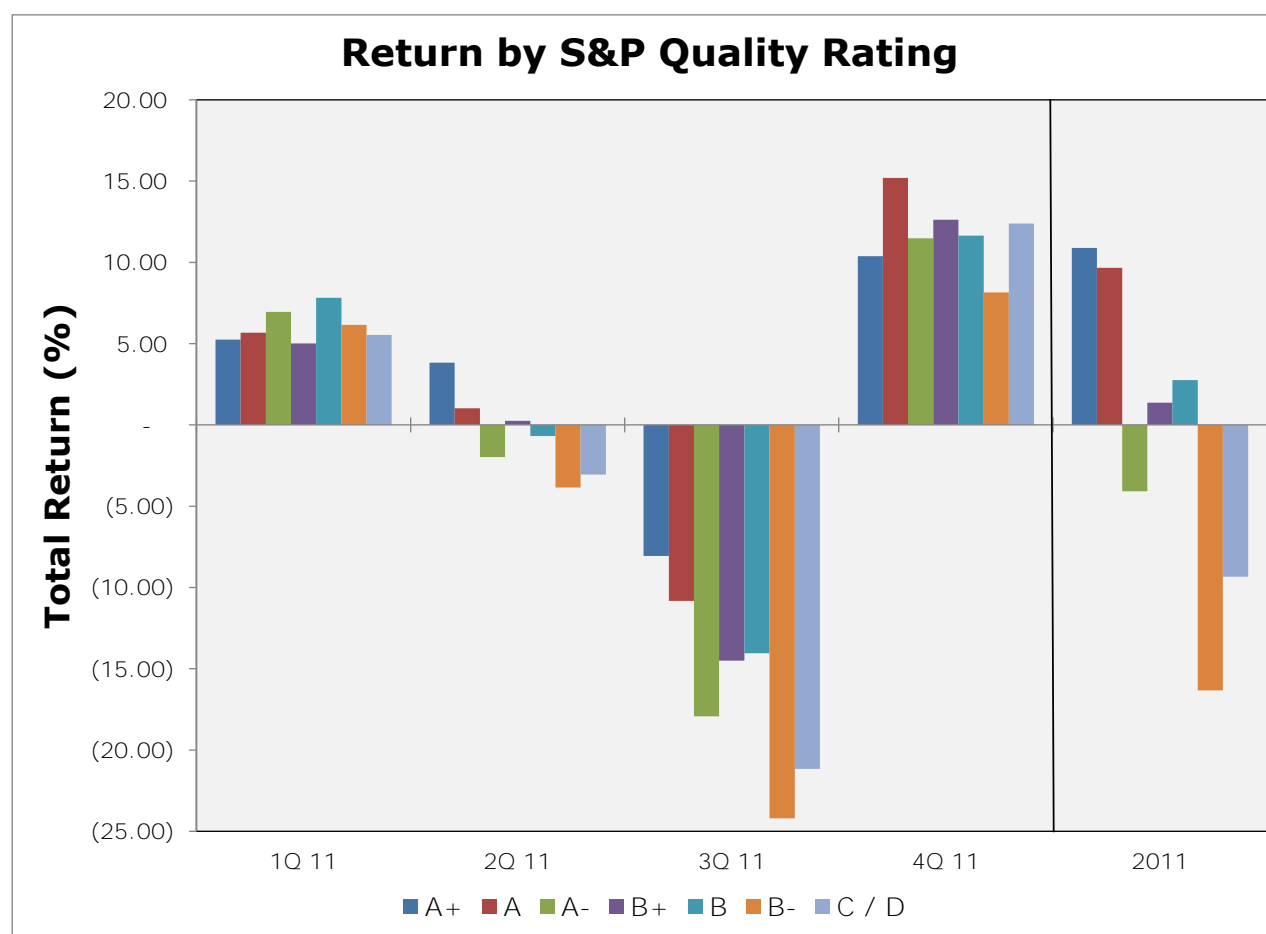


Data sources: Wilshire Compass, MSCI Barra



Returns by Quality Segment

Of the stocks included in the exhibit, A+ and A rated companies represent 5% of the universe by count and 25-30% of the total market value in each quarter



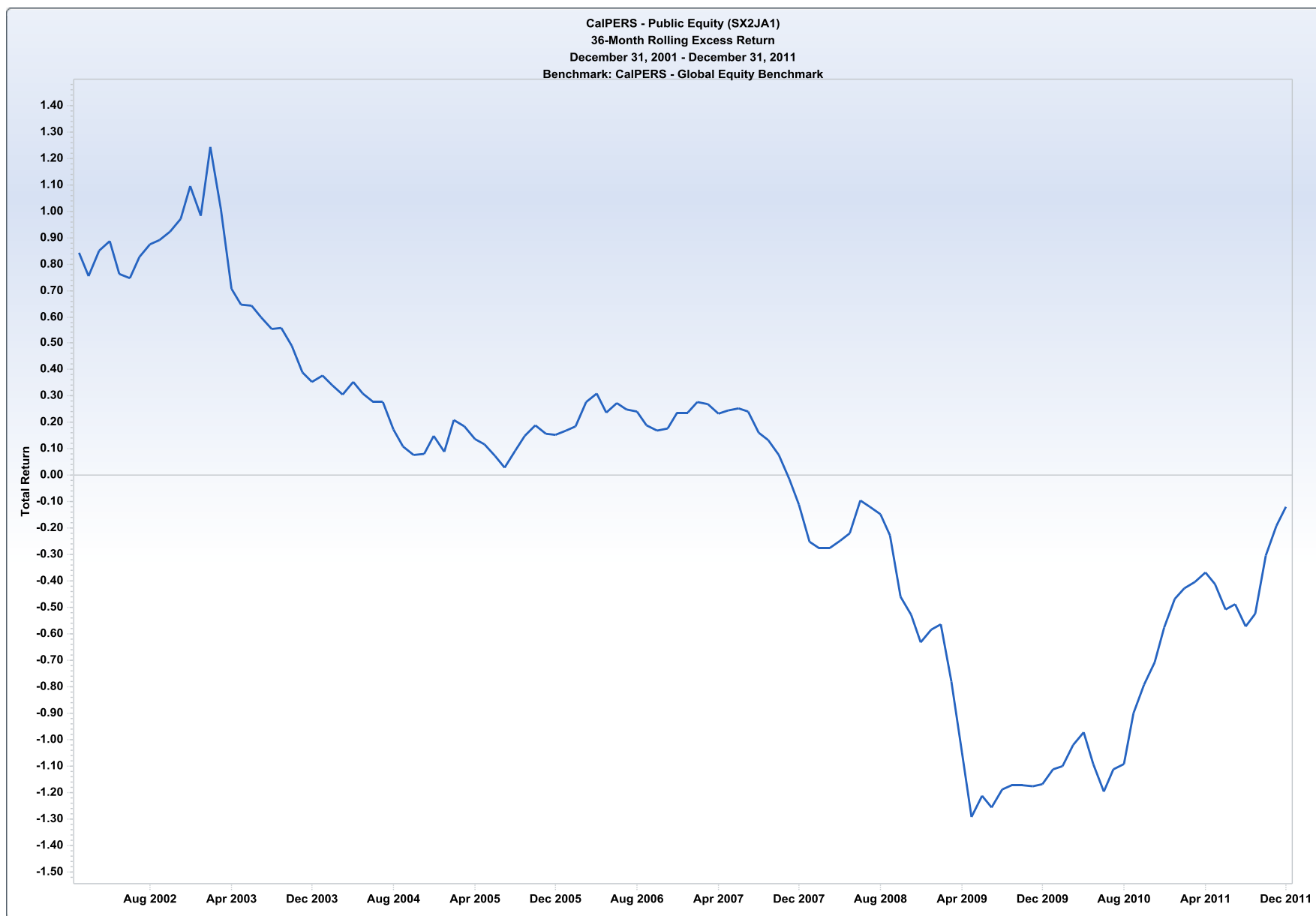
Data sources: Wilshire Atlas

Growth: Public Equity – Performance

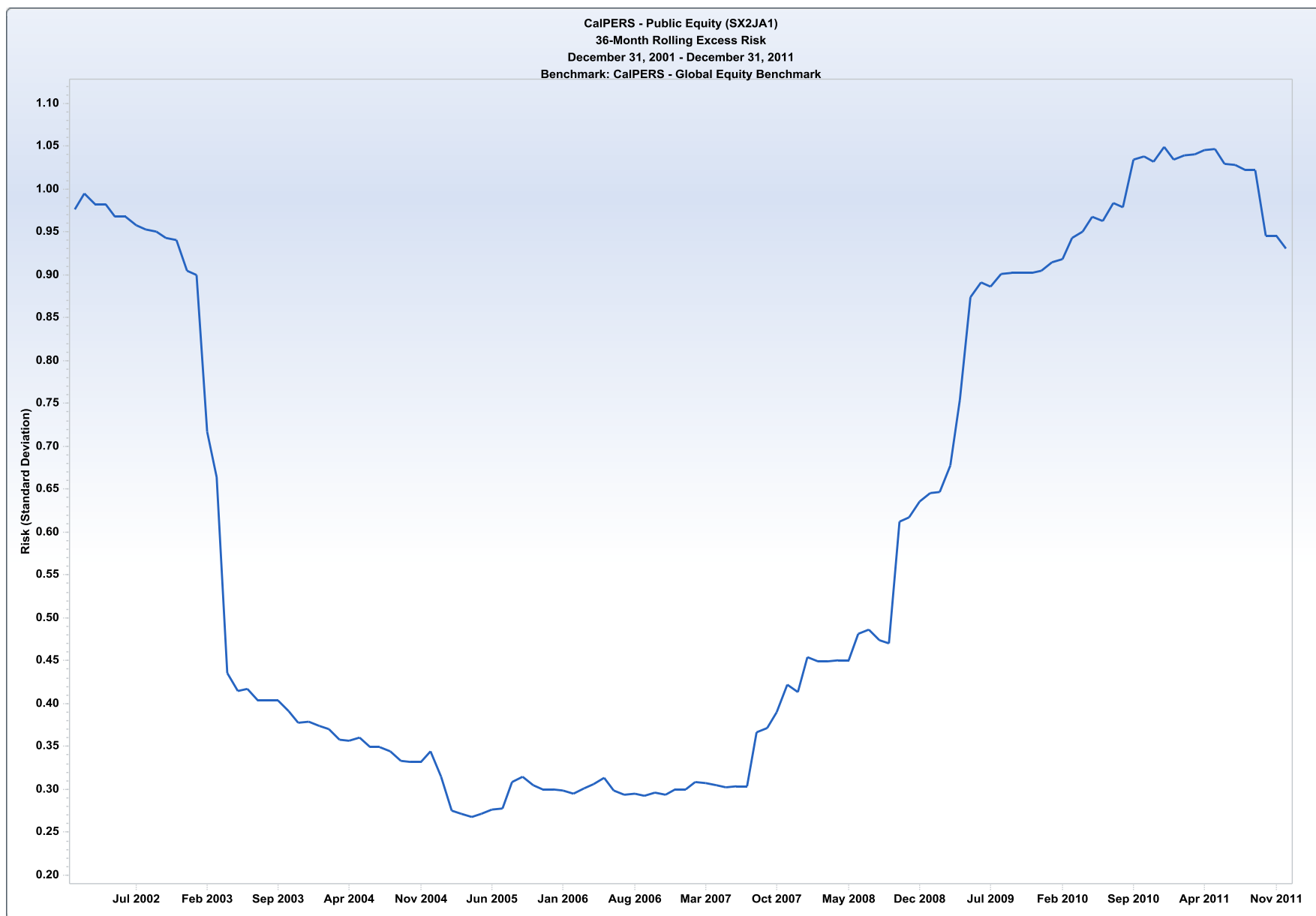


	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR²²	5-year Sharpe Ratio²³	5-year Info Ratio²⁴
PUBLIC EQUITY¹⁵	108.4	7.2%	-8.0%	12.9%	-1.8%	4.0%	\$20.5 bil	-0.2	-0.6
<i>Public Equity Policy Benchmark¹⁶</i>		7.2%	-8.1%	13.2%	-1.0%	4.4%		-0.1	0.0
<i>Value Added</i>		0.0%	0.1%	-0.3%	-0.8%	-0.4%			
US Equity Composite (ex ARS)	50.8	12.1%	0.1%	15.0%	0.0%	3.5%		-0.1	-0.2
<i>Custom US Equity Benchmark¹⁷</i>		11.8%	0.3%	14.6%	0.1%	3.5%		-0.1	0.0
<i>Value Added</i>		0.3%	-0.2%	0.4%	-0.1%	0.0%			
Total Int'l Equity (ex ARS)	56.0	3.3%	-14.2%	11.4%	-2.8%	6.4%		-0.2	0.3
<i>Custom Int'l Equity Benchmark¹⁸</i>		3.4%	-13.4%	9.7%	-3.2%	6.1%		-0.2	0.0
<i>Value Added</i>		-0.1%	-0.8%	1.7%	0.4%	0.3%			
Global Equity Equitization	1.6	7.7%	-4.8%	-.-%	-.-%	-.-%			
<i>Custom Benchmark¹⁹</i>		7.2%	-8.1%	-.-%	-.-%	-.-%			
<i>Value Added</i>		0.5%	3.3%	-.-%	-.-%	-.-%			

Growth: Public Equity – Rolling Excess Returns



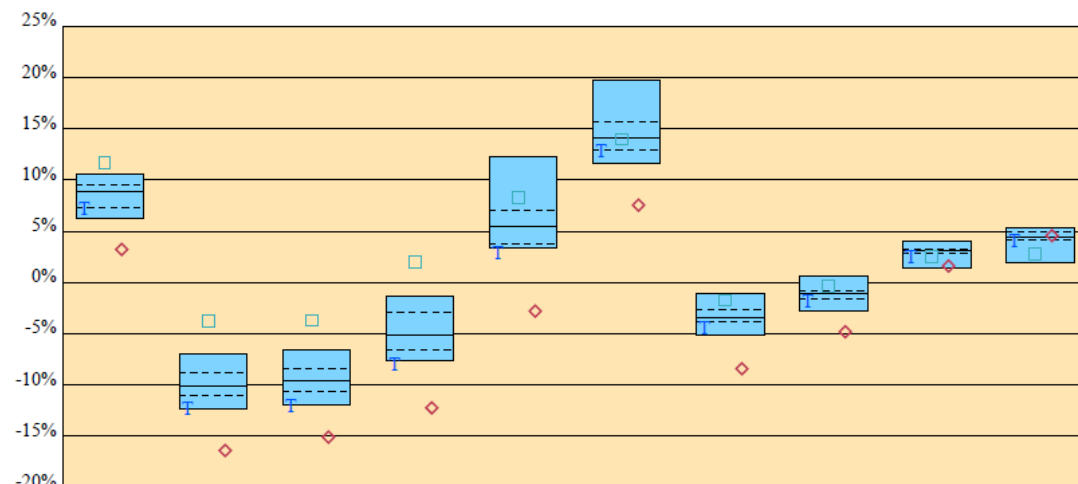
Growth: Public Equity – Rolling Tracking Error



Growth: Public Equity – Universe Comparison



California Public Employees Retirement
Equity Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	10.56	-7.02	-6.59	-1.28	12.22	19.69	-1.03	0.61	4.01	5.35
25th Percentile	9.48	-8.82	-8.45	-2.96	7.04	15.74	-2.61	-0.79	3.29	4.96
Median	8.91	-10.10	-9.61	-5.17	5.48	14.14	-3.37	-1.07	3.06	4.49
75th Percentile	7.28	-11.06	-10.62	-6.52	3.72	12.95	-3.89	-1.55	2.87	4.18
95th Percentile	6.23	-12.38	-11.91	-7.64	3.34	11.58	-5.11	-2.74	1.46	1.88
T Total Plan - Composites	7.22 (78)	-12.30 (92)	-11.99 (99)	-7.91 (99)	2.97 (95)	12.92 (79)	-4.40 (79)	-1.80 (84)	2.59 (87)	4.09 (75)
S&P 500	11.81 (1)	-3.69 (1)	-3.59 (1)	2.12 (1)	8.39 (9)	14.10 (50)	-1.64 (5)	-0.24 (5)	2.64 (87)	2.92 (83)
MSCI EAFE (Net)	3.33 (99)	-16.30 (100)	-15.00 (100)	-12.14 (100)	-2.70 (100)	7.65 (100)	-8.32 (100)	-4.72 (100)	1.71 (93)	4.67 (31)

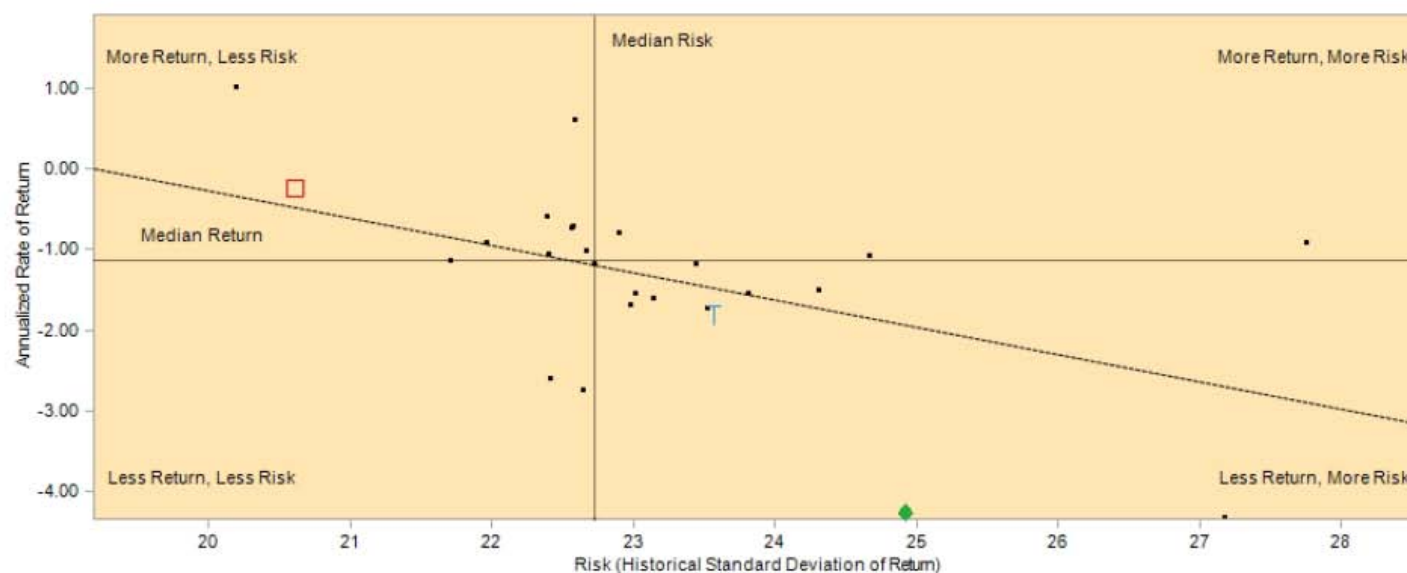
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Growth – Public Equity – Risk and Return



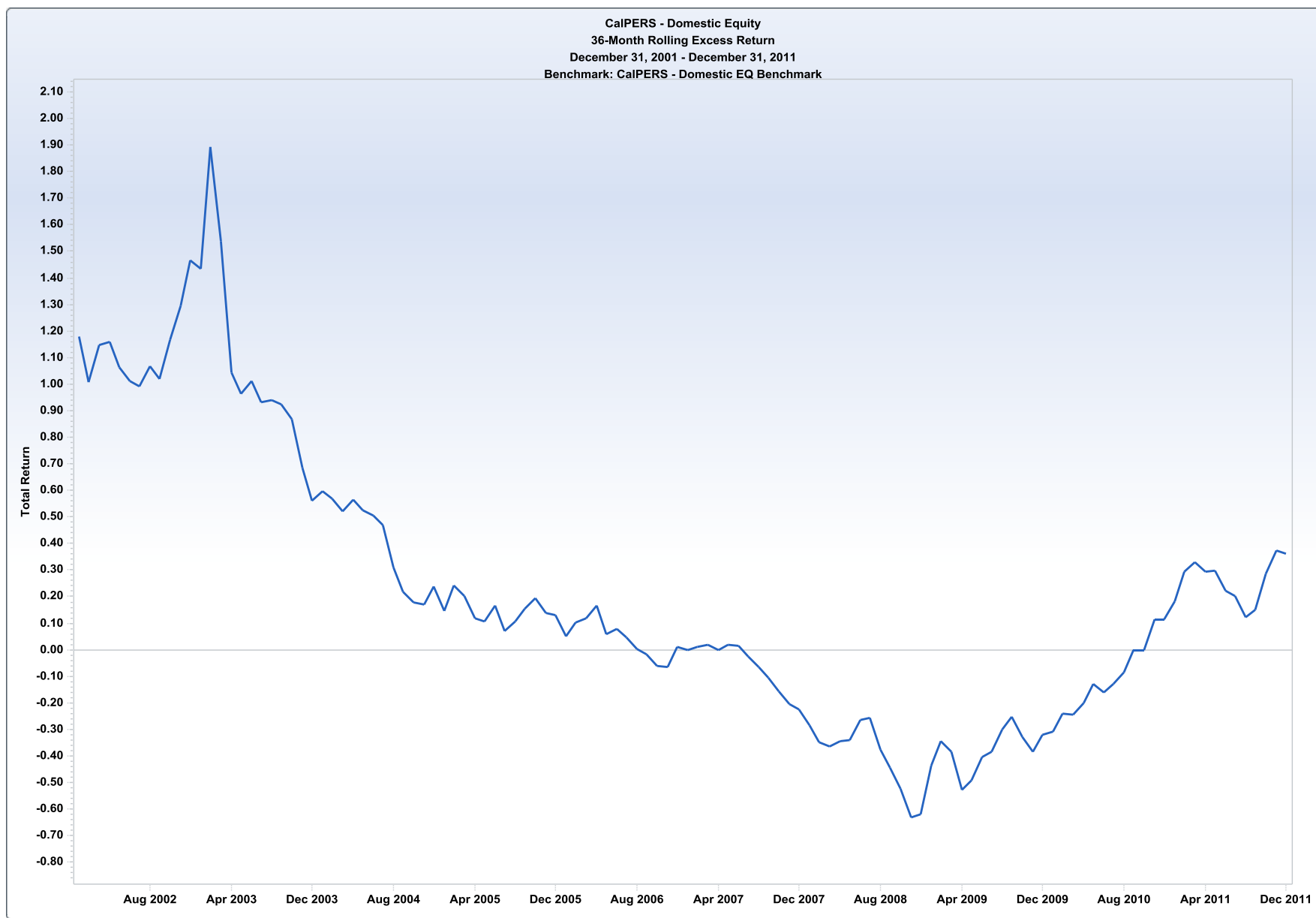
California Public Employees Retirement System
Risk vs Total Equity Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



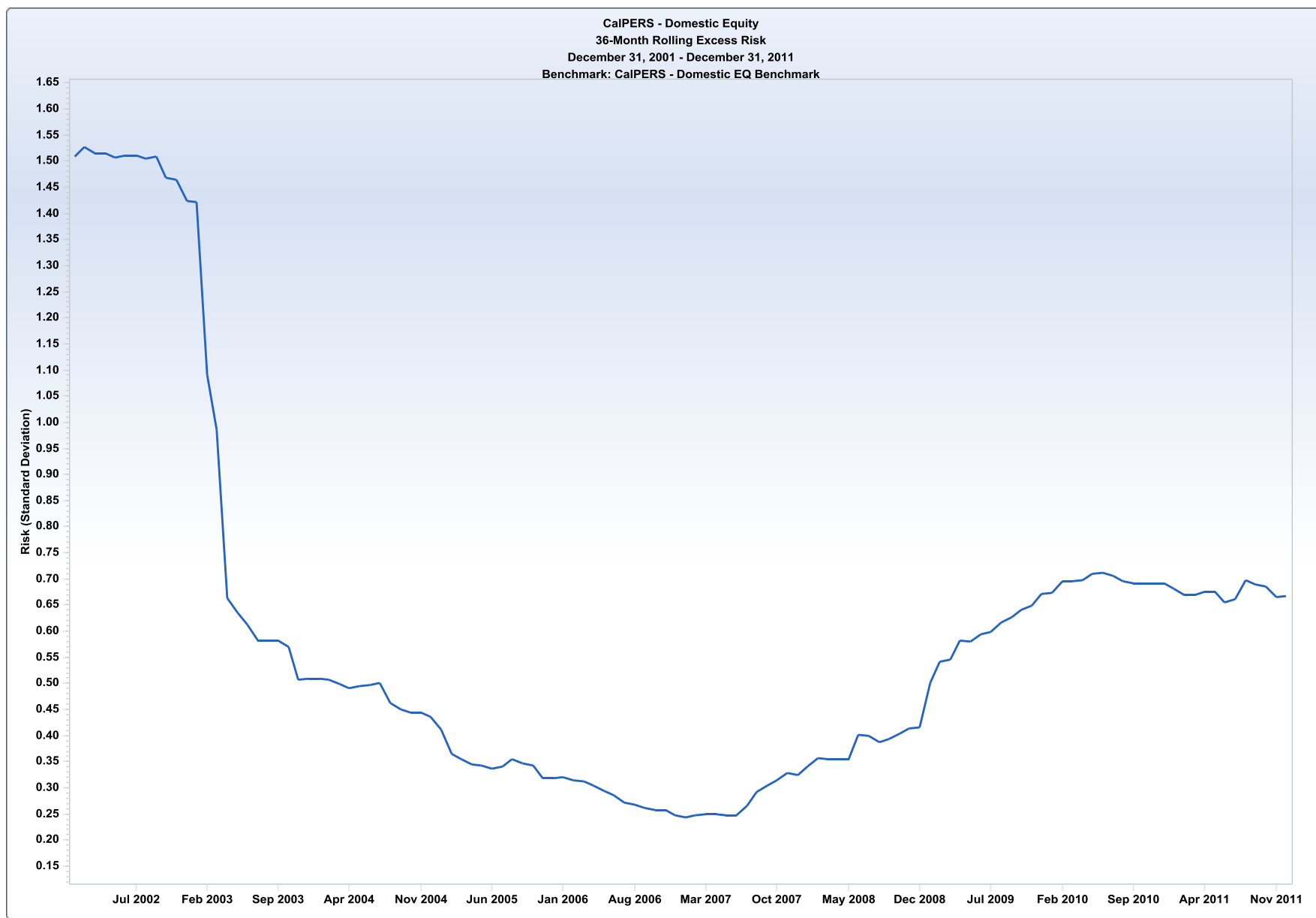
Alpha: 6.54
Beta: -0.34
R-Squared: 0.26

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	23.57	25	-1.80	84
□ S&P 500	20.61	99	-0.24	5
◆ MSCI EAFE	24.92	10	-4.26	99
Median	22.73		-1.14	

Growth: US Equity – Rolling Excess Returns



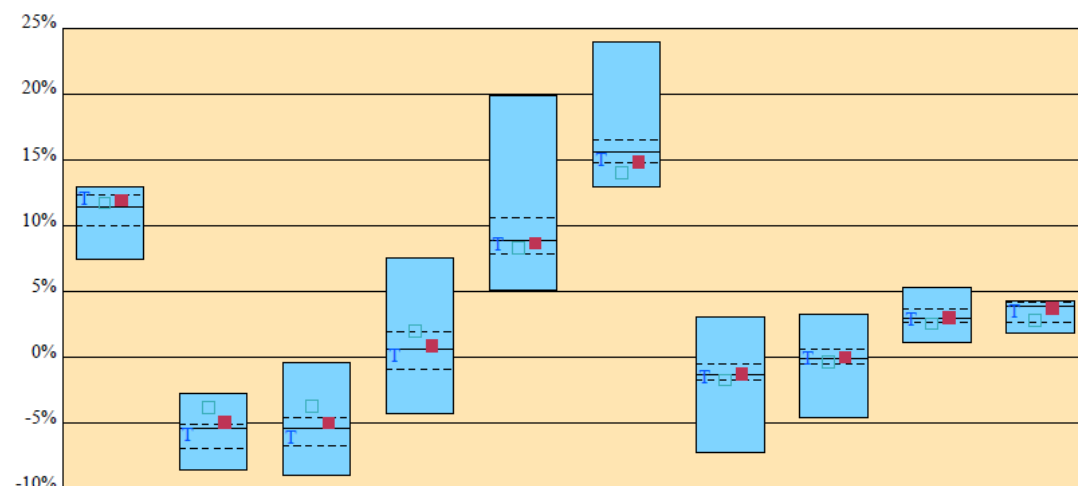
Growth: US Equity – Rolling Tracking Error



Growth: US Equity – Universe Comparison



California Public Employees Retirement
US Equity Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	12.98	-2.76	-0.42	7.57	19.94	23.97	3.09	3.29	5.31	4.30
25th Percentile	12.31	-5.07	-4.50	1.95	10.66	16.54	-0.44	0.65	3.68	4.17
Median	11.42	-5.41	-5.35	0.62	8.94	15.67	-1.25	-0.08	3.03	3.91
75th Percentile	10.00	-6.92	-6.69	-0.93	7.86	14.80	-1.70	-0.45	2.64	2.70
95th Percentile	7.52	-8.49	-8.92	-4.26	5.15	12.95	-7.19	-4.55	1.12	1.87
T Total Plan - Composites	12.09 (31)	-5.83 (53)	-5.99 (64)	0.15 (53)	8.64 (54)	15.10 (62)	-1.42 (60)	0.01 (35)	2.92 (56)	3.55 (58)
S&P 500	11.81 (37)	-3.69 (9)	-3.59 (18)	2.12 (21)	8.39 (62)	14.10 (87)	-1.64 (70)	-0.24 (65)	2.64 (75)	2.92 (66)
Wilshire 5000	12.02 (31)	-4.82 (21)	-4.90 (35)	0.98 (46)	8.77 (54)	14.93 (66)	-1.20 (45)	0.12 (35)	3.11 (43)	3.80 (50)

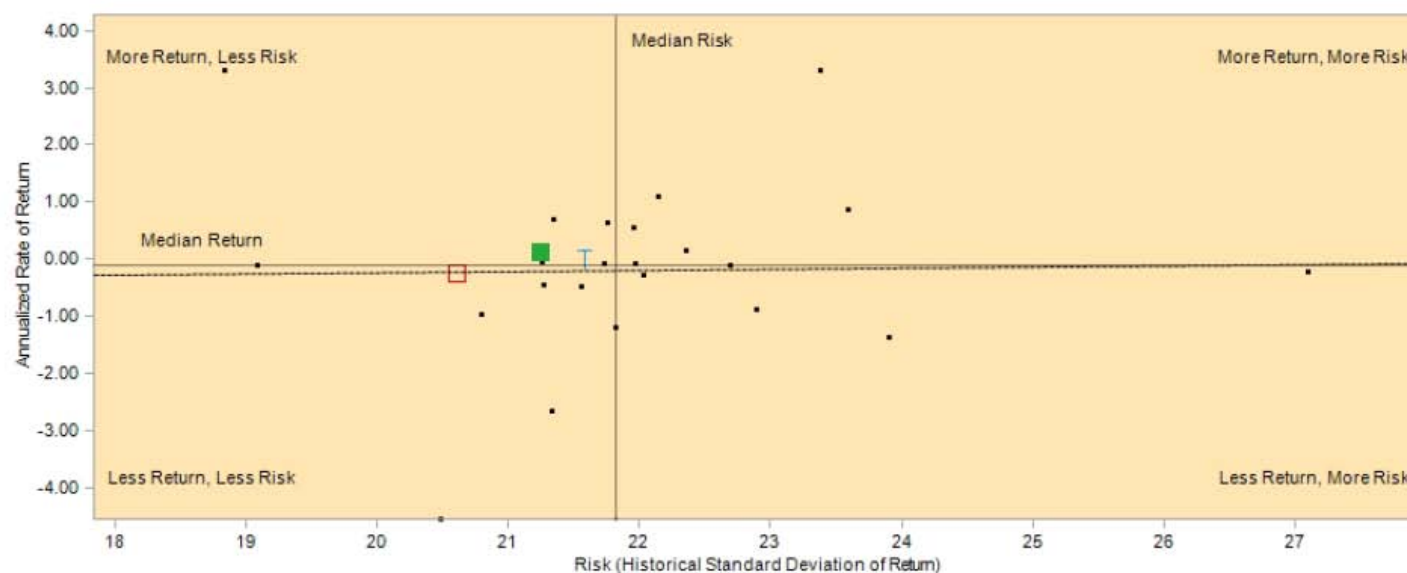
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Growth – US Equity – Risk and Return



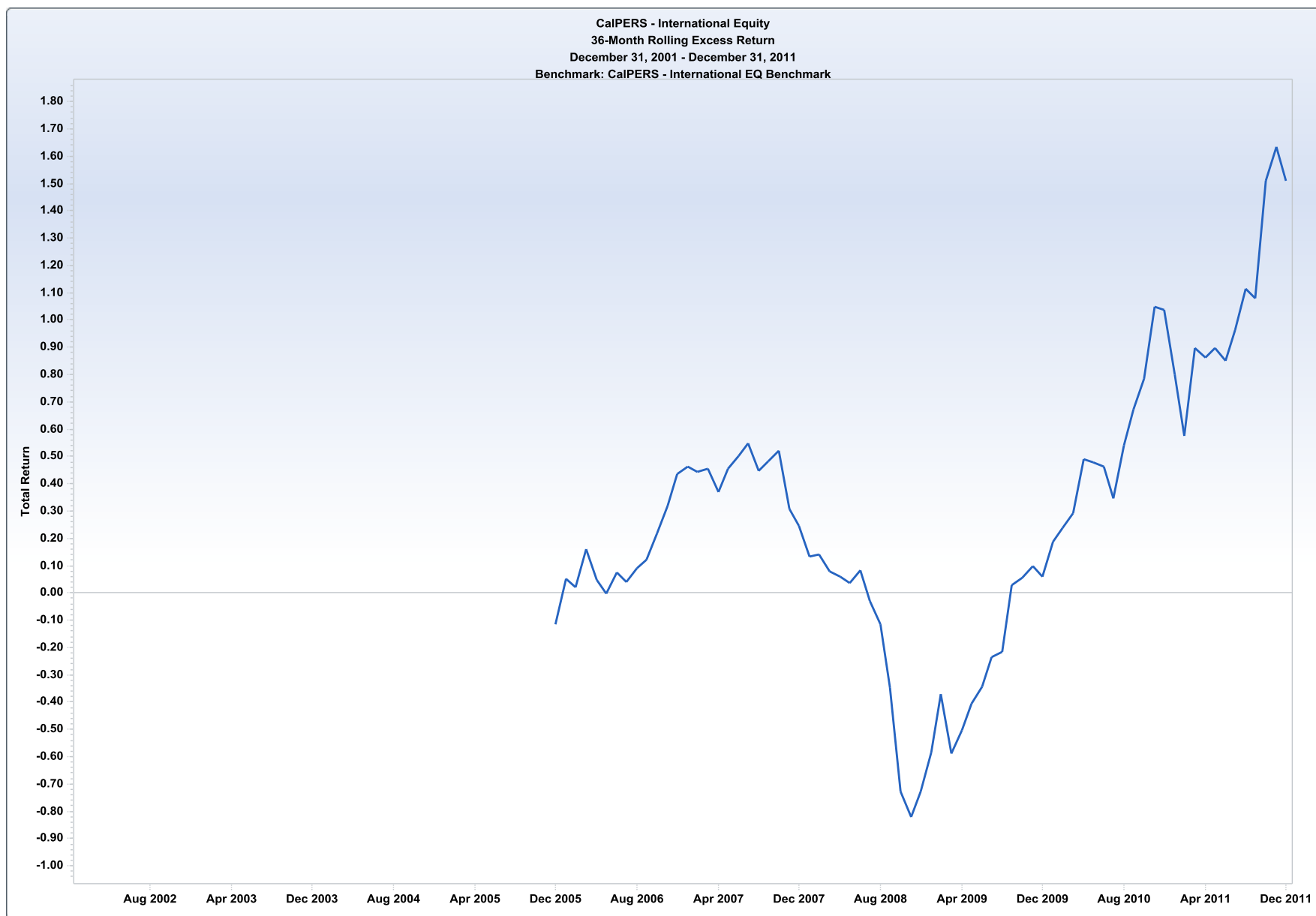
California Public Employees Retirement System
Risk vs US Equity Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



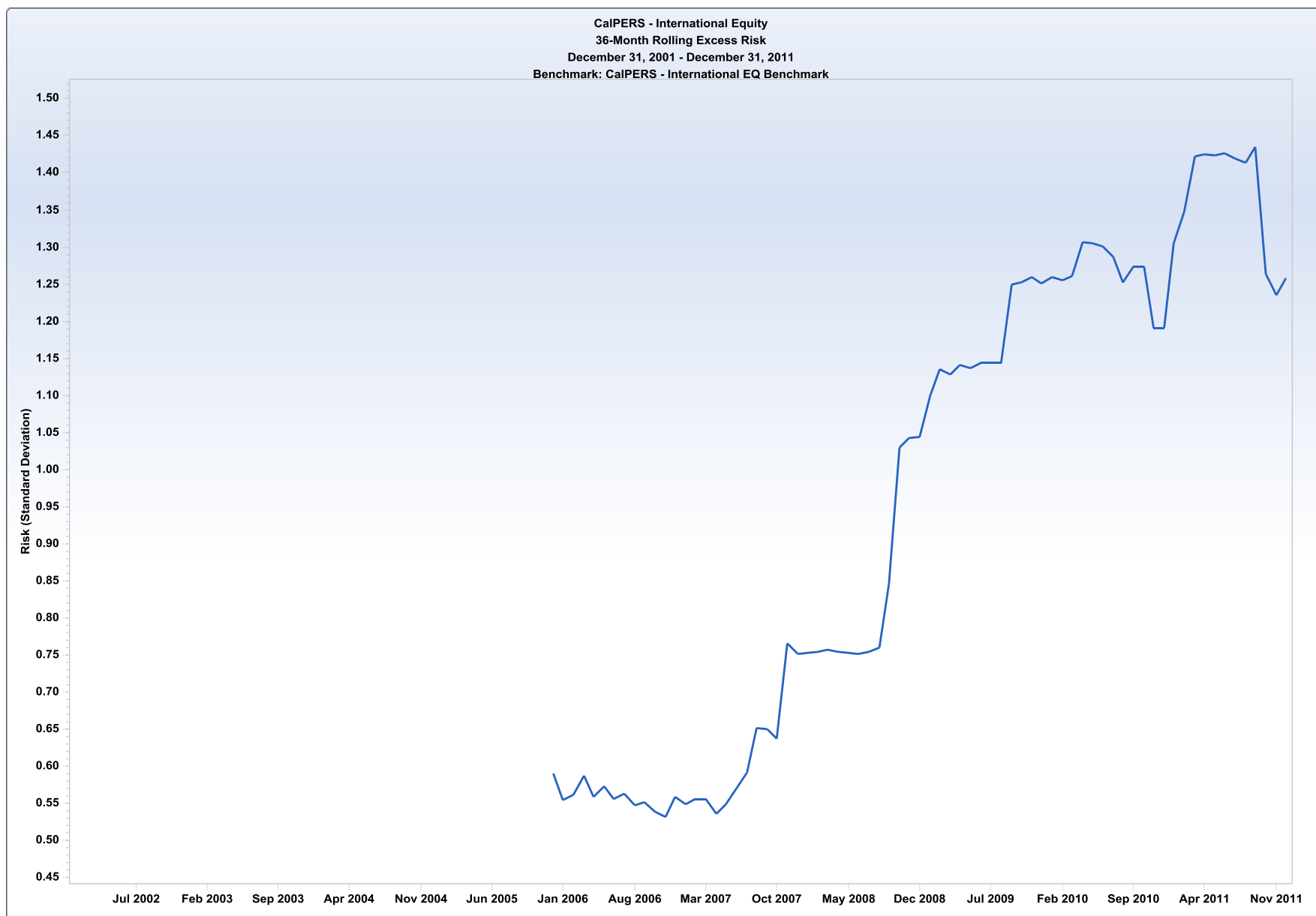
Alpha: -0.64
Beta: 0.02
R-Squared: 0

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	21.59	62	0.01	33
S&P 500	20.61	89	-0.24	58
Wilshire 5000	21.25	84	0.12	33
Median	21.82		-0.12	

Growth: International Equity – Rolling Excess Returns



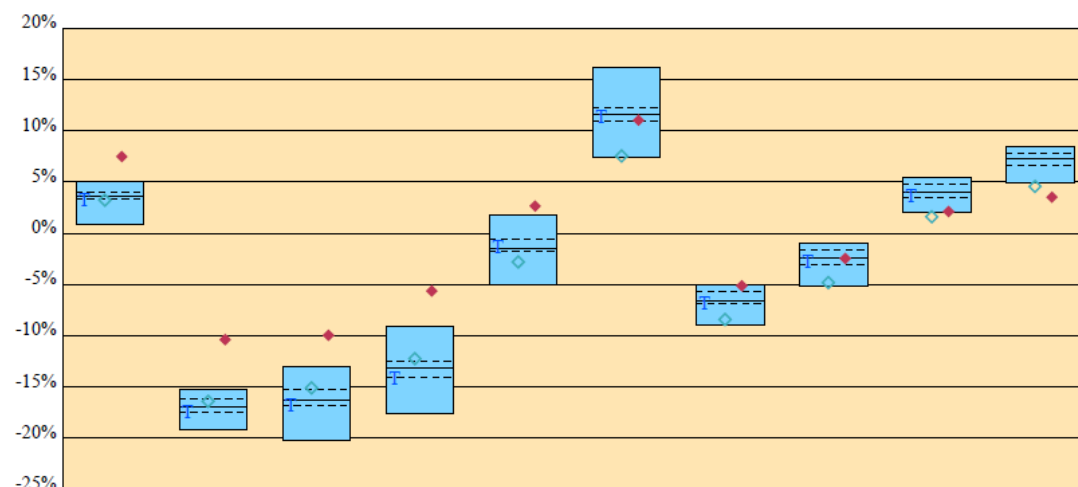
Growth: International Equity – Rolling Tracking Error



Growth: International Equity – Universe Comparison



California Public Employees Retirement
International Equity Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	5.01	-15.21	-12.98	-9.15	1.80	16.21	-5.04	-0.99	5.40	8.45
25th Percentile	3.97	-16.22	-15.26	-12.51	-0.56	12.20	-5.70	-1.60	4.82	7.79
Median	3.63	-16.99	-16.32	-13.15	-1.45	11.59	-6.55	-2.46	4.06	7.32
75th Percentile	3.38	-17.45	-16.82	-14.03	-1.76	10.97	-6.89	-3.01	3.53	6.59
95th Percentile	0.89	-19.12	-20.20	-17.64	-4.97	7.41	-8.95	-5.19	2.02	4.87
T Total Plan - Composites	3.35 (81)	-17.43 (71)	-16.78 (67)	-14.17 (75)	-1.33 (45)	11.44 (55)	-6.75 (60)	-2.76 (70)	3.72 (68)	
◇ MSCI EAFE (Net)	3.33 (81)	-16.30 (28)	-15.00 (15)	-12.14 (18)	-2.70 (89)	7.65 (94)	-8.32 (93)	-4.72 (93)	1.71 (99)	4.67 (99)
◆ MSCI World (Net)	7.59 (1)	-10.28 (1)	-9.86 (1)	-5.54 (1)	2.75 (1)	11.13 (60)	-5.03 (1)	-2.37 (35)	2.22 (91)	3.62 (99)

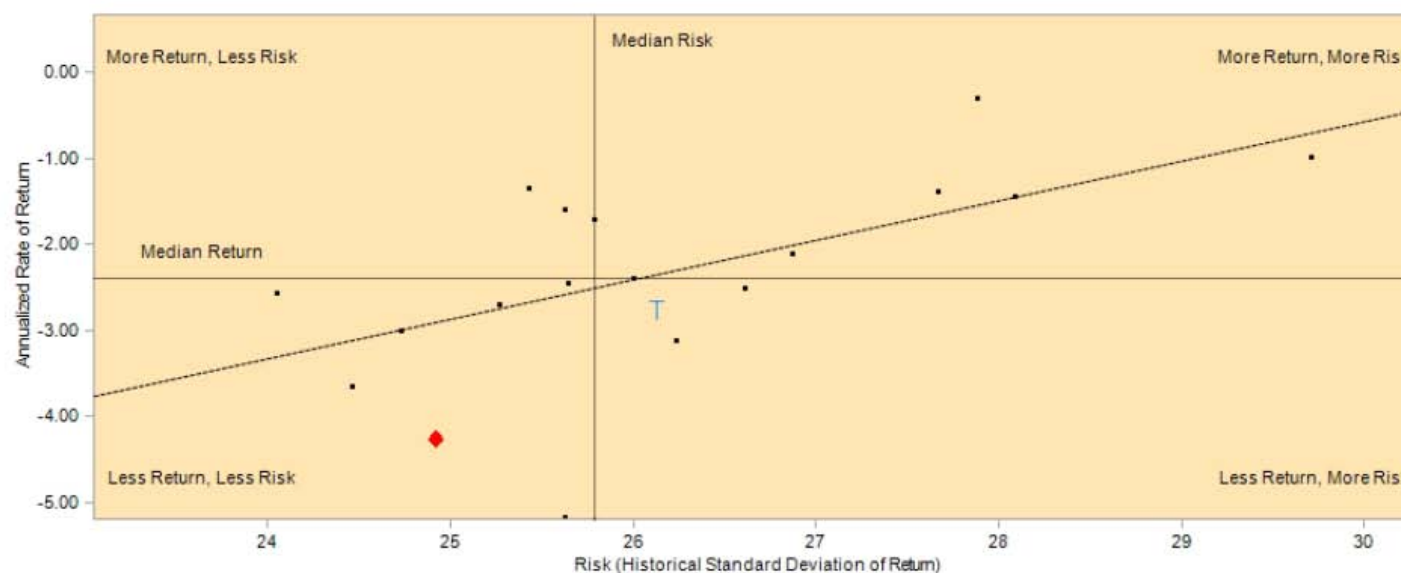
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Growth – Non US Equity – Risk and Return



California Public Employees Retirement System
Risk vs Non-US Equity Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



Alpha: -14.38
Beta: 0.46
R-Squared: 0.35

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	26.13	37	-2.76	75
♦ MSCI EAFE	24.92	83	-4.26	99
Median	25.79		-2.39	

Growth: Corporate Governance/MDP/FoF

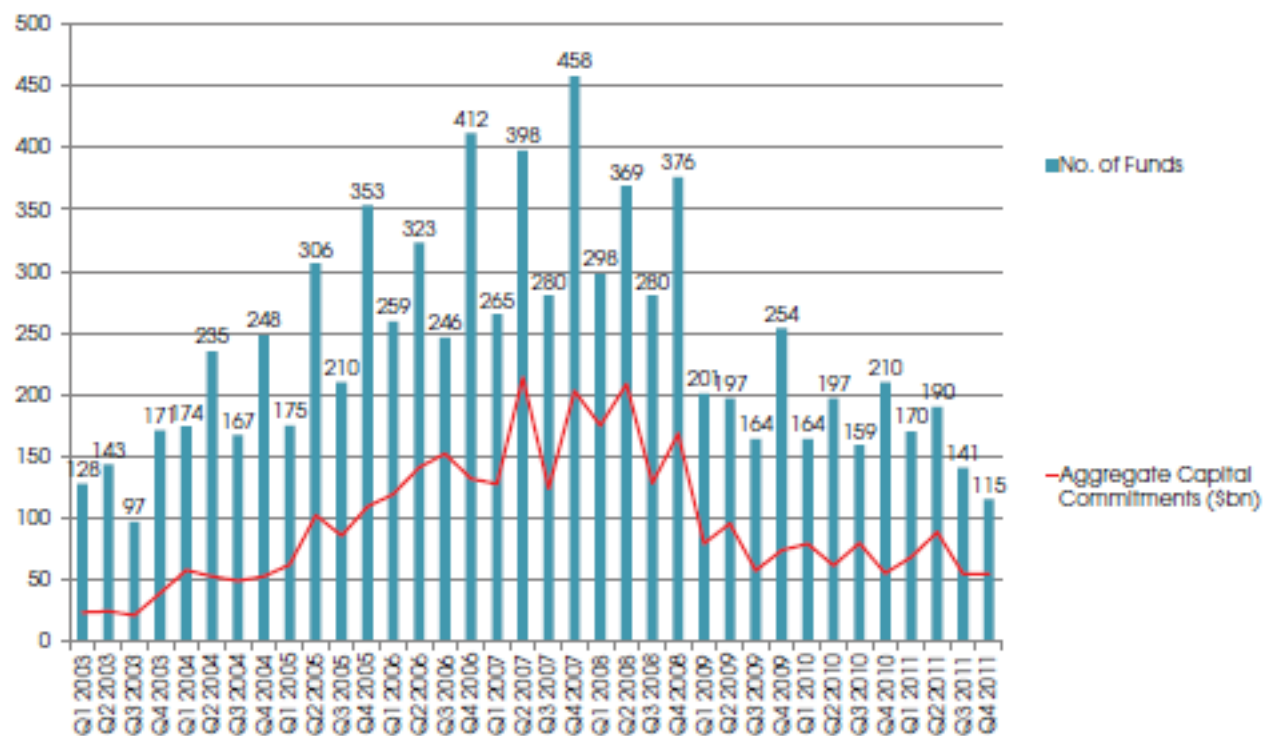


	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Date</u>
Total Corporate Governance	4.0	6.6%	-10.6%	10.4%	-4.7%	5.2%	12/98
<i>Policy Benchmark</i>		5.5%	-6.1%	8.4%	-3.8%	3.3%	
<i>Value Added</i>		1.1%	-4.5%	2.0%	-0.9%	1.9%	
Total MDP	1.7	9.1%	-4.4%	10.9%	-0.8%	4.2%	6/00
<i>Policy Benchmark</i>		9.3%	-4.1%	11.7%	0.2%	5.4%	
<i>Value Added</i>		-0.2%	-0.3%	-0.8%	-1.0%	-1.2%	
Total FoF	0.8	9.7%	-5.9%	16.1%	-.-%	-.-%	3/08
<i>Policy Benchmark</i>		10.3%	-6.6%	15.3%	-.-%	-.-%	
<i>Value Added</i>		-0.6%	0.7%	0.8%	-.-%	-.-%	

Private Equity Fundraising



Fig. 1: Quarterly Private Equity Fundraising Breakdown, 2003 - 2011



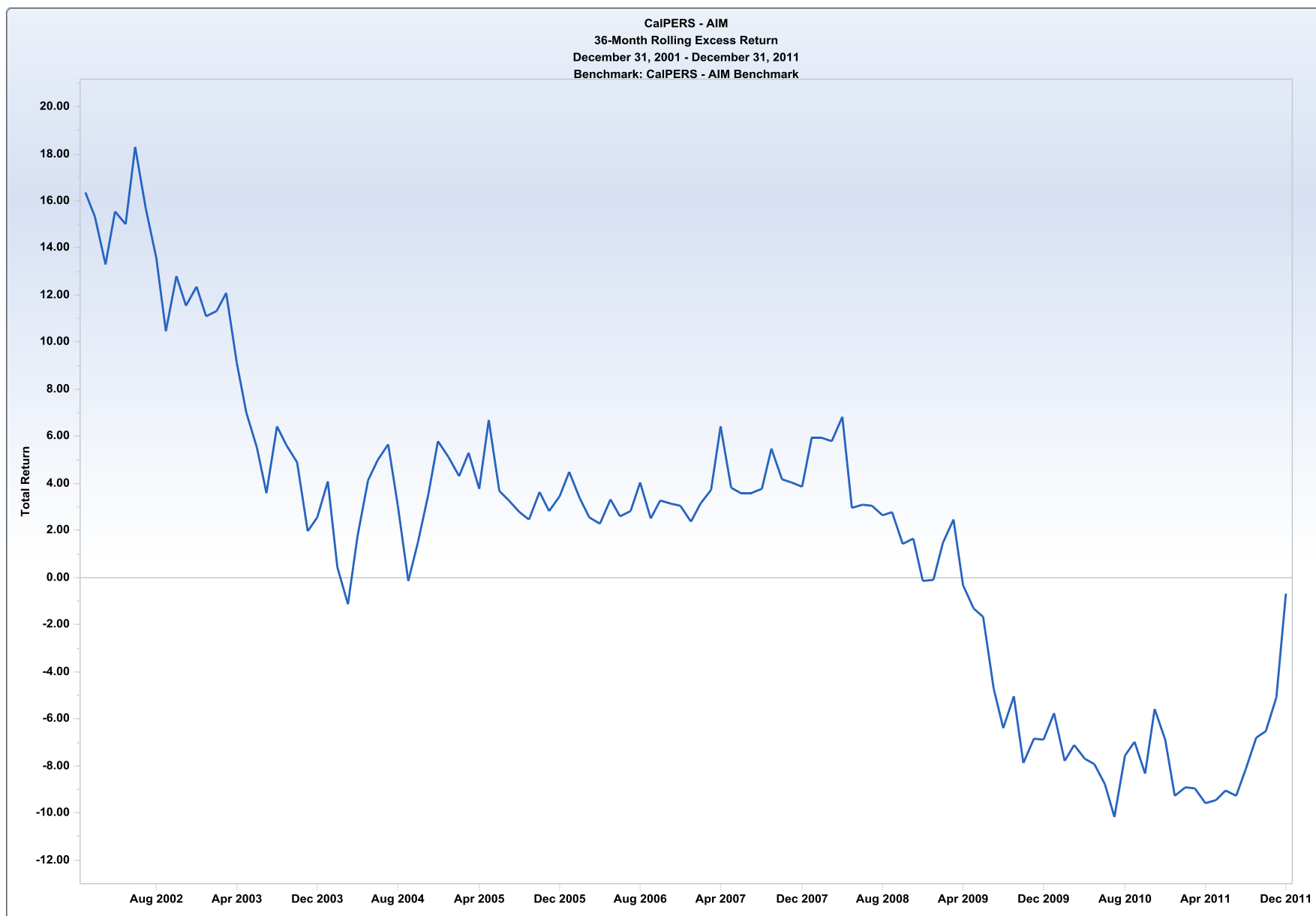
Source: Preqin

Growth: Private Equity (AIM) – Performance

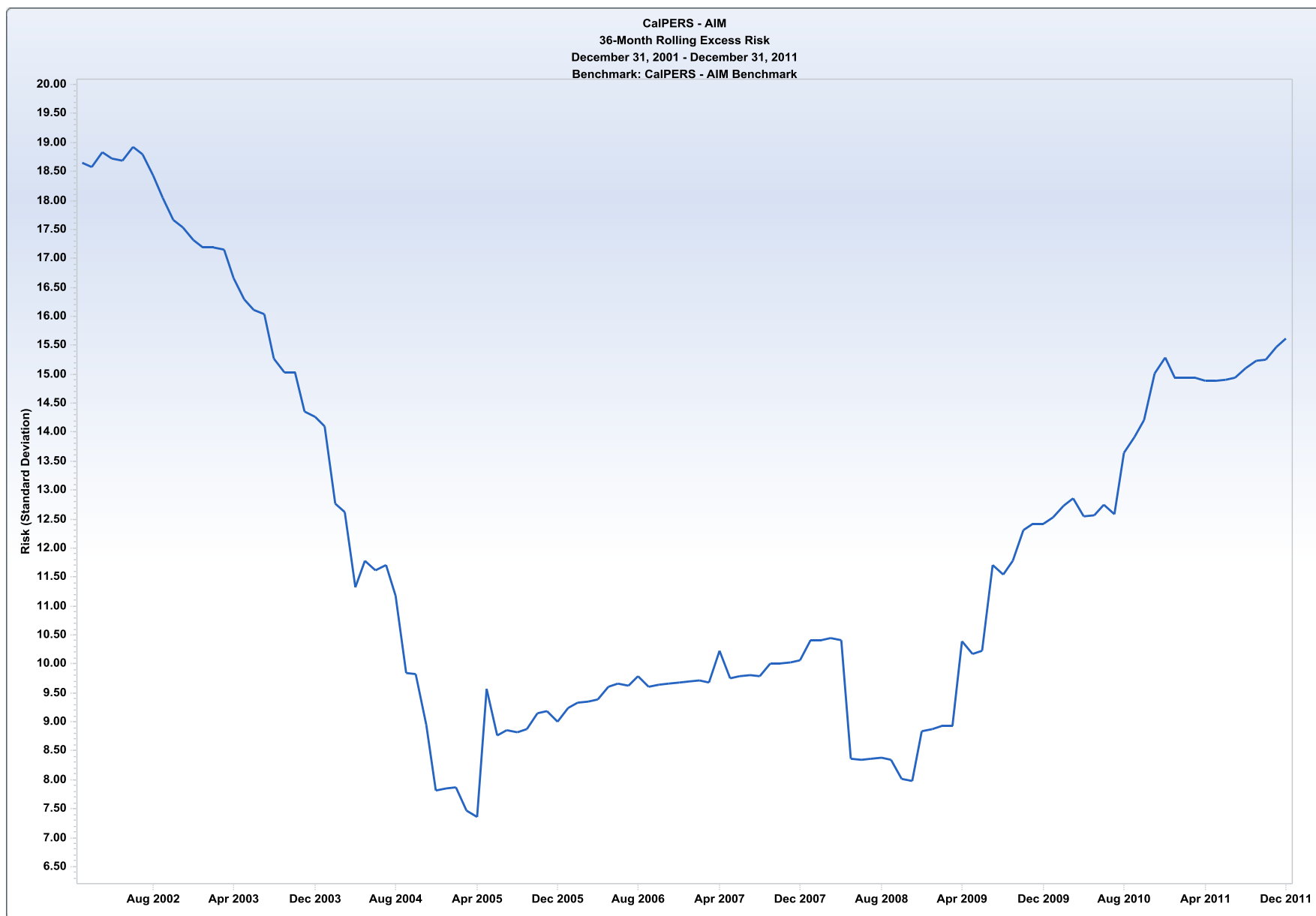


	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>VaR²²</u>	<u>5-year Sharpe Ratio²³</u>	<u>5-year Info Ratio²⁴</u>
PRIVATE EQUITY (AIM) ²⁰	32.1	-5.6%	12.4%	8.7%	8.2%	8.9%	\$10.2 bil	0.6	-0.1
<i>AIM Policy Benchmark ²¹</i>		-16.3%	1.4%	9.4%	9.3%	7.0%		0.6	0.0
<i>Value Added</i>		10.7%	11.0%	-0.7%	-1.1%	1.9%			
Private Equity Partnership Investments	32.0	-5.7%	12.5%	8.7%	8.3%	8.9%			
Private Equity Distribution Stock	0.2	17.1%	-11.5%	19.1%	8.9%	9.0%			

Growth: Private Equity (AIM) – Rolling Excess Returns



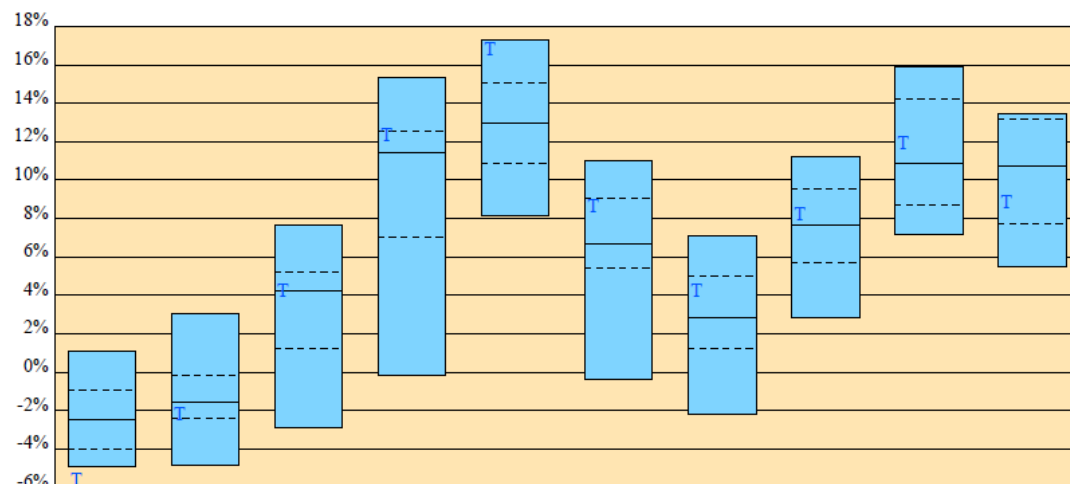
Growth: Private Equity (AIM) – Rolling Tracking Error



Growth: Private Equity (AIM) – Universe Comparison



California Public Employees Retirement
Private Equity Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	1.12	3.06	7.65	15.33	17.27	11.04	7.13	11.19	15.93	13.44
25th Percentile	-0.96	-0.16	5.18	12.53	15.05	9.08	4.97	9.57	14.23	13.17
Median	-2.50	-1.59	4.25	11.46	12.94	6.70	2.83	7.65	10.84	10.73
75th Percentile	-4.01	-2.39	1.25	7.02	10.89	5.41	1.23	5.69	8.69	7.70
95th Percentile	-4.95	-4.82	-2.88	-0.18	8.15	-0.36	-2.20	2.86	7.18	5.49
T Total Plan - Composites	-5.61 (95)	-2.16 (71)	4.28 (46)	12.37 (25)	16.83 (9)	8.66 (33)	4.24 (33)	8.23 (37)	11.97 (43)	8.90 (58)

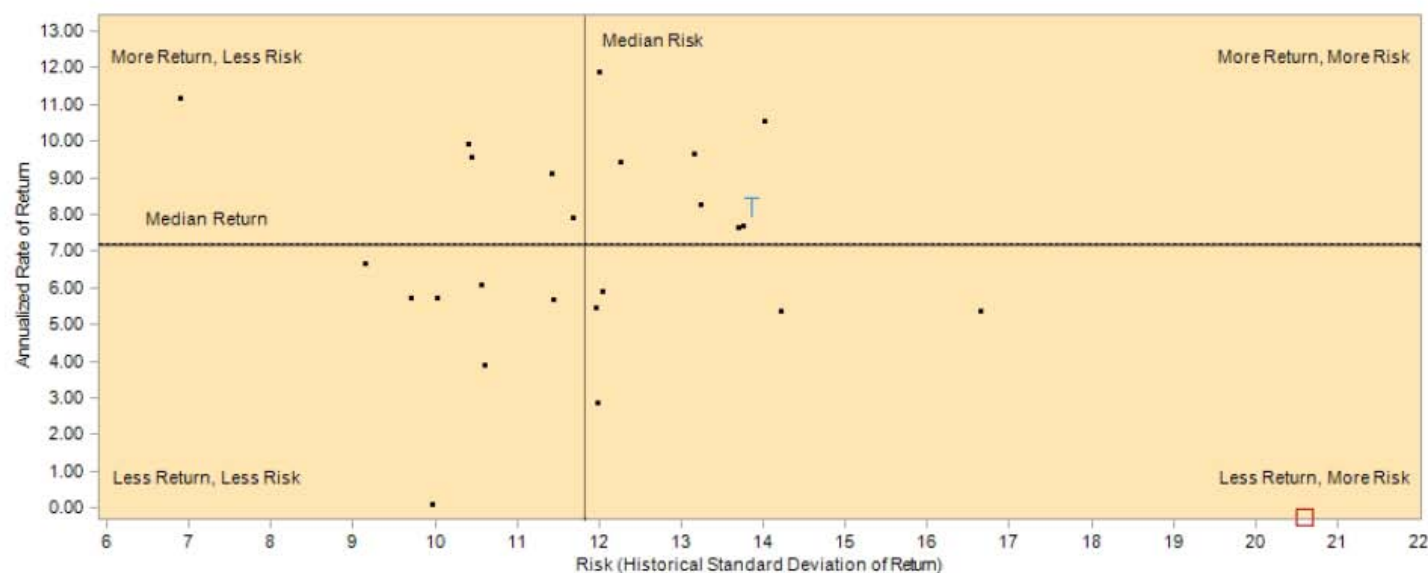
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Growth – AIM – Risk and Return



California Public Employees Retirement System
Risk vs Total Private Equity Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



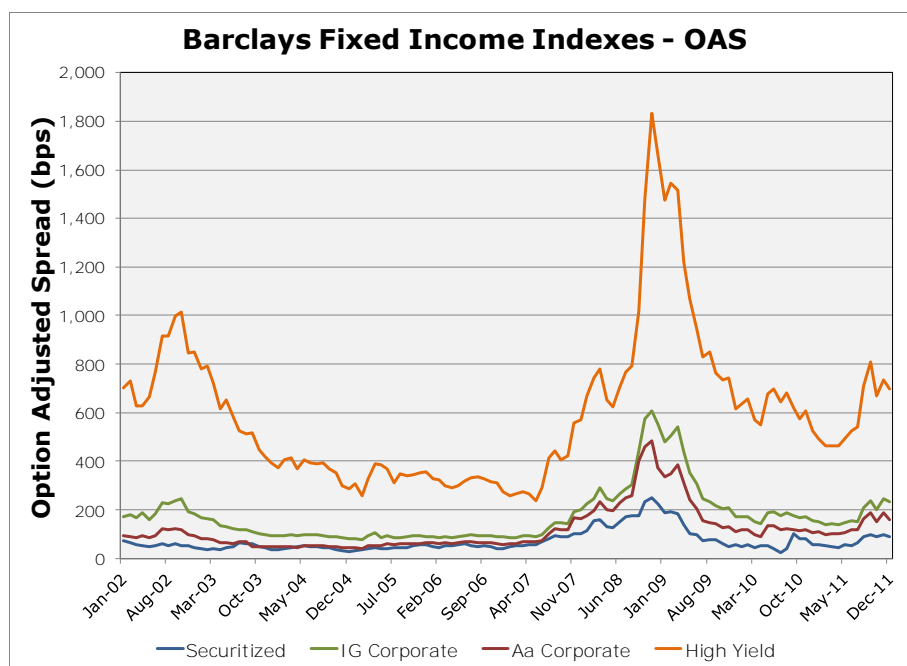
Alpha: 7.19
Beta: 0
R-Squared: 0

	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	13.86	10	8.23	37
S&P 500	20.61	1	-0.24	100
Median	11.83		7.16	

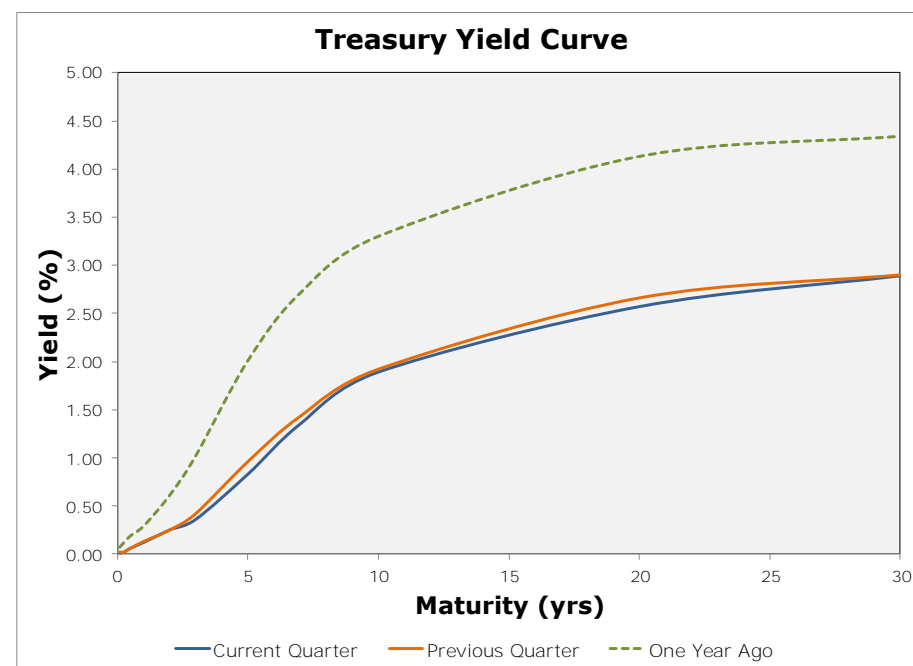
U.S. Capital Markets: Fixed Income



December 31, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
Barclays Aggregate Bond Index	1.1	7.8	7.8	6.8	6.5	5.8
Barclays Treasury Index	0.9	9.8	9.8	3.9	6.8	5.7
Barclays Govt-Related Index	0.7	6.7	6.7	4.7	6.1	5.5
Barclays Securitized Index	1.0	6.2	6.2	6.8	6.4	5.6
Barclays Corporate IG Index	1.9	8.1	8.1	11.8	6.8	6.4
Barclays LT Govt/Credit Index	2.6	22.5	22.5	11.2	9.7	8.5
Barclays Long-Term Treasury Index	1.9	29.9	29.9	7.4	11.0	8.9
Barclays U.S. TIPS Index	2.7	13.6	13.6	10.4	8.0	7.6
Barclays High Yield Index	6.5	5.0	5.0	24.1	7.5	8.9
Treasury Bills	0.0	0.1	0.1	0.1	1.5	2.0



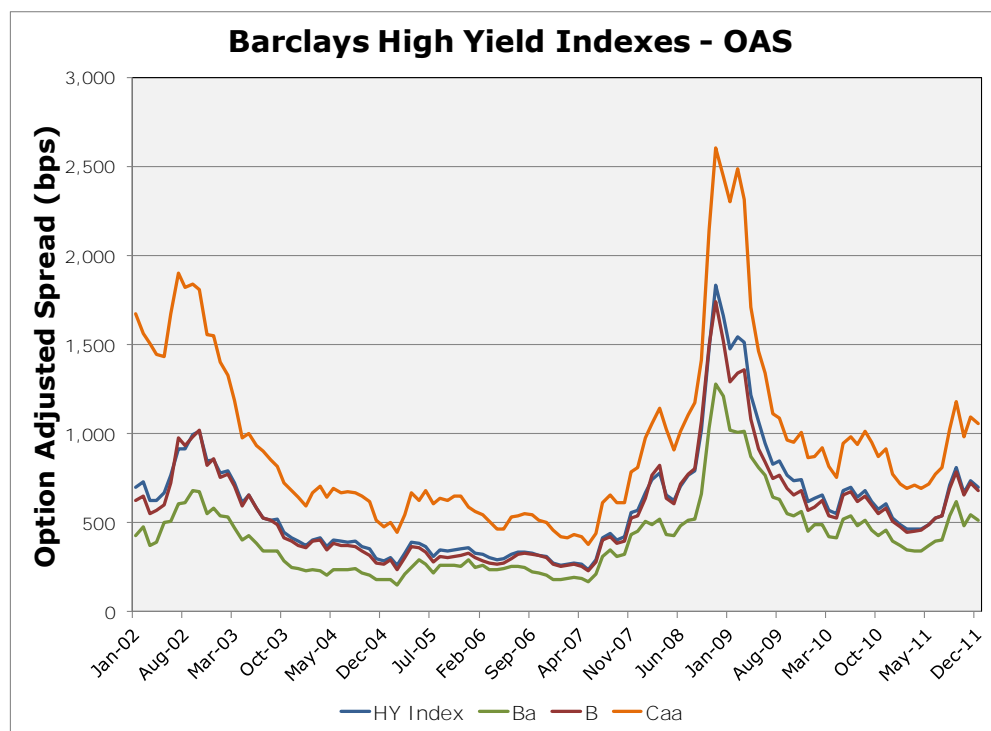
Data sources: Wilshire Compass, Barclays Capital, U.S. Treasury



High Yield by Quality



December 31, 2011	Weight	Qtr	Ytd	1 Yr	3 Yr
Barclays High Yield Index	100%	6.5	5.0	5.0	24.1
Quality Distribution					
Ba U.S. High Yield	40.1%	5.6	6.8	6.8	21.4
B U.S. High Yield	43.3%	6.4	5.4	5.4	20.2
Caa U.S. High Yield	14.5%	8.4	1.2	1.2	31.0
Ca to D U.S. High Yield	1.9%	10.5	-12.4	-12.4	39.6
Non-Rated U.S. High Yield	0.2%	9.0	6.8	6.8	14.8



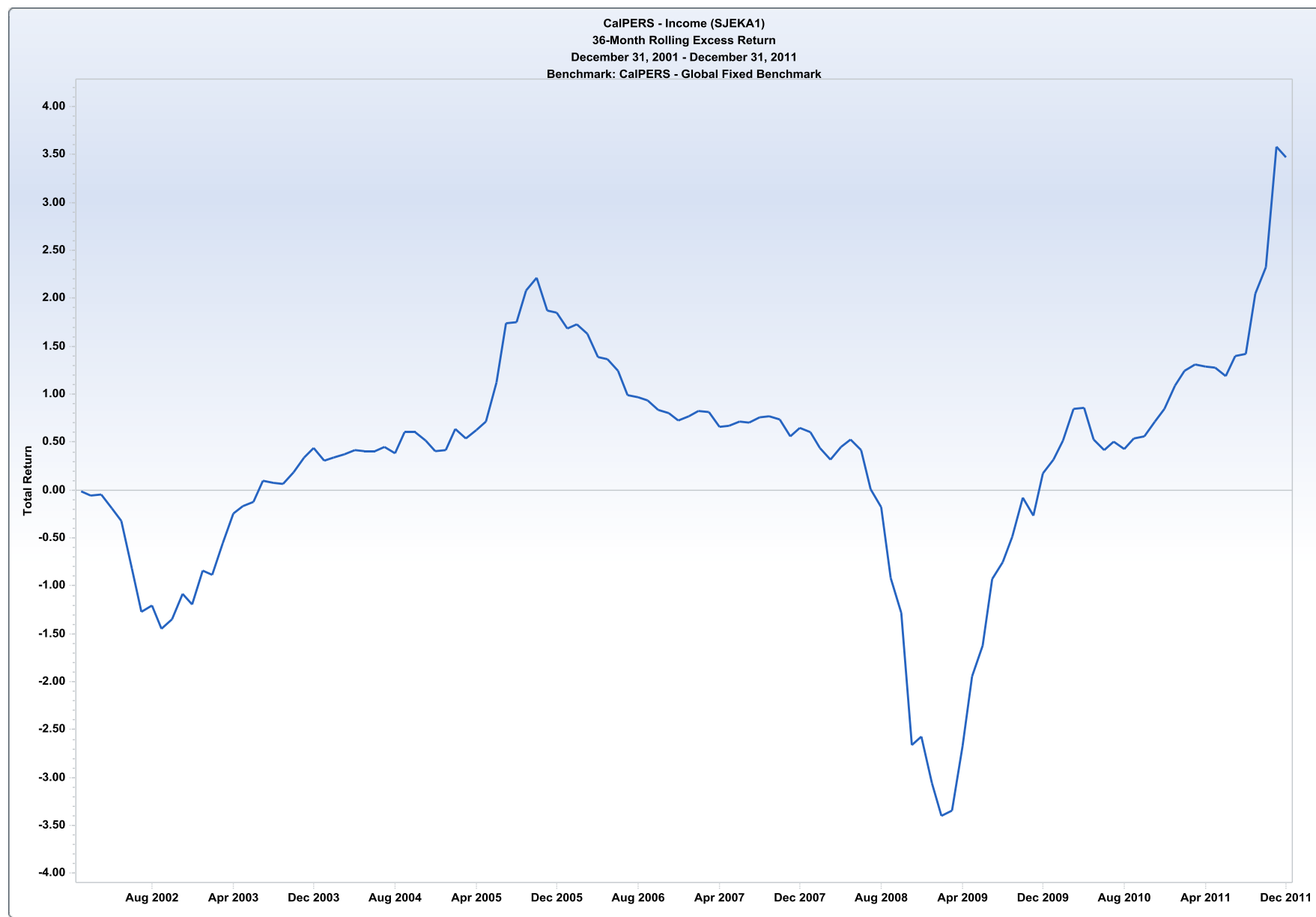
Data sources: Barclays Capital

Income – Performance

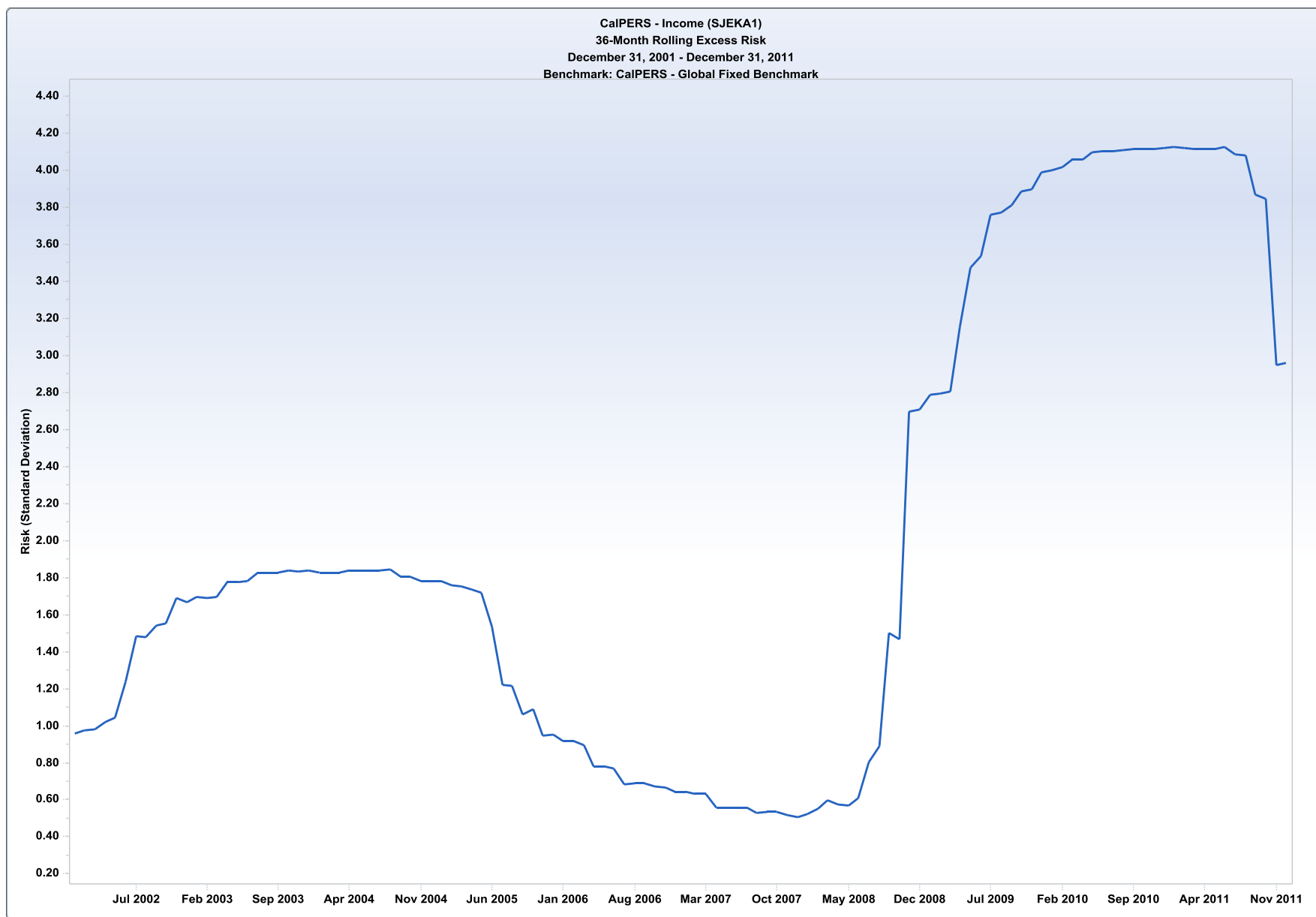


	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR³⁸	5-year Sharpe Ratio³⁹	5-year Info Ratio⁴⁰
INCOME	40.4	1.7%	12.4%	13.6%	8.8%	8.1%	\$5.2 bil	1.1	0.1
<i>Income Policy Benchmark³⁵</i>		1.9%	13.9%	9.8%	8.5%	7.6%		1.1	0.0
<i>Value Added</i>		-0.2%	-1.5%	3.8%	0.3%	0.5%			
U.S. Income	36.7	1.8%	12.9%	14.2%	8.9%	7.8%		1.1	0.1
<i>U.S. Income Policy Benchmark³⁶</i>		2.1%	14.7%	10.1%	8.6%	7.4%		1.1	0.0
<i>Value Added</i>		-0.3%	-1.8%	4.1%	0.3%	0.4%			
Non-U.S. Income	3.6	0.2%	7.2%	8.6%	8.5%	9.1%		0.7	0.7
<i>Non-US Income Policy Benchmark³⁷</i>		-0.4%	5.3%	5.2%	7.2%	8.4%		0.6	0.0
<i>Value Added</i>		0.6%	1.9%	3.4%	1.3%	0.7%			

Income – Rolling Excess Returns



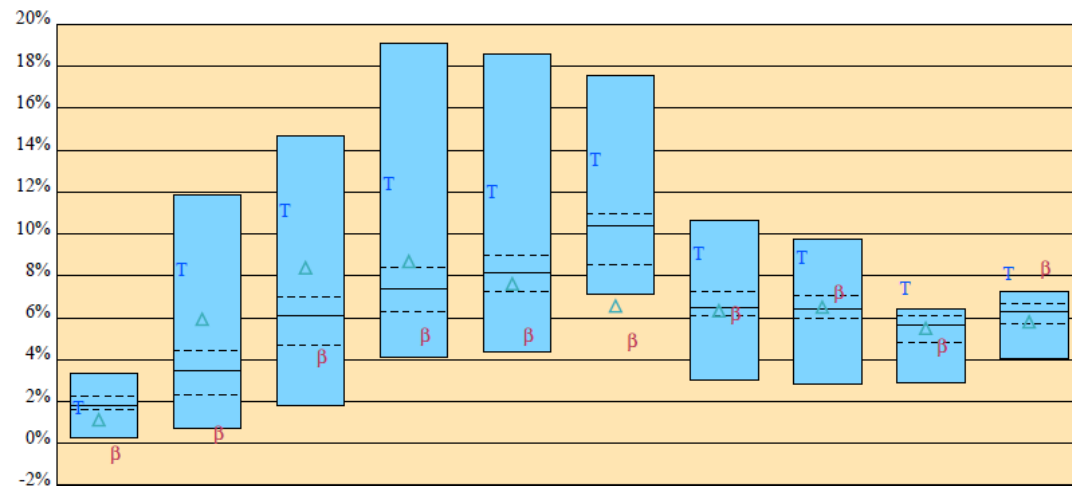
Income – Rolling Tracking Error



Income – Universe Comparison



California Public Employees Retirement
Fixed Income Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	3.34	11.88	14.69	19.11	18.57	17.57	10.64	9.75	6.43	7.24
25th Percentile	2.23	4.45	6.97	8.41	8.99	10.98	7.25	7.07	6.09	6.67
Median	1.78	3.45	6.11	7.39	8.18	10.40	6.46	6.40	5.63	6.30
75th Percentile	1.61	2.34	4.71	6.32	7.26	8.53	6.10	5.96	4.82	5.70
95th Percentile	0.30	0.75	1.78	4.12	4.40	7.14	3.01	2.86	2.87	4.02
T Total Plan - Composites	1.69 (65)	8.29 (9)	11.16 (9)	12.39 (9)	12.02 (9)	13.57 (9)	9.06 (5)	8.86 (5)	7.41 (1)	8.09 (1)
△ Barclays Govt/Credit	1.18 (87)	5.97 (12)	8.43 (15)	8.73 (18)	7.66 (64)	6.60 (95)	6.38 (62)	6.55 (33)	5.54 (55)	5.85 (60)
β Citigroup Non-US Govt Bond	-0.48 (96)	0.47 (95)	4.16 (85)	5.17 (92)	5.19 (91)	4.92 (99)	6.20 (62)	7.23 (17)	4.67 (75)	8.36 (1)

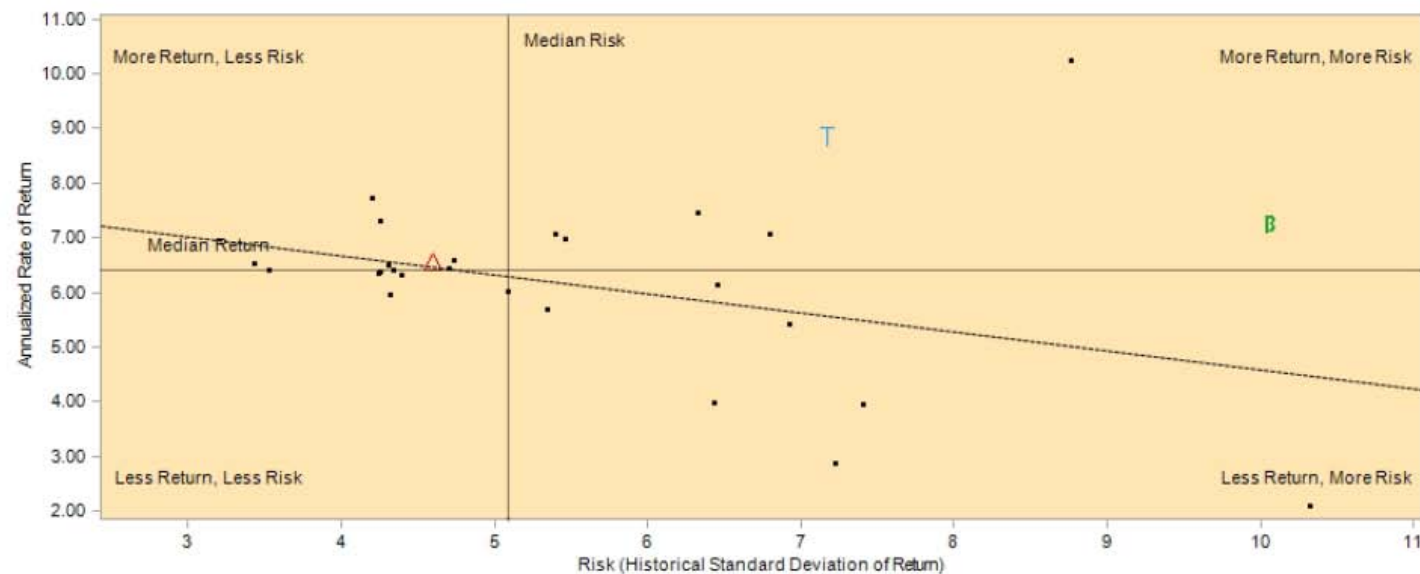
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Income – Risk and Return

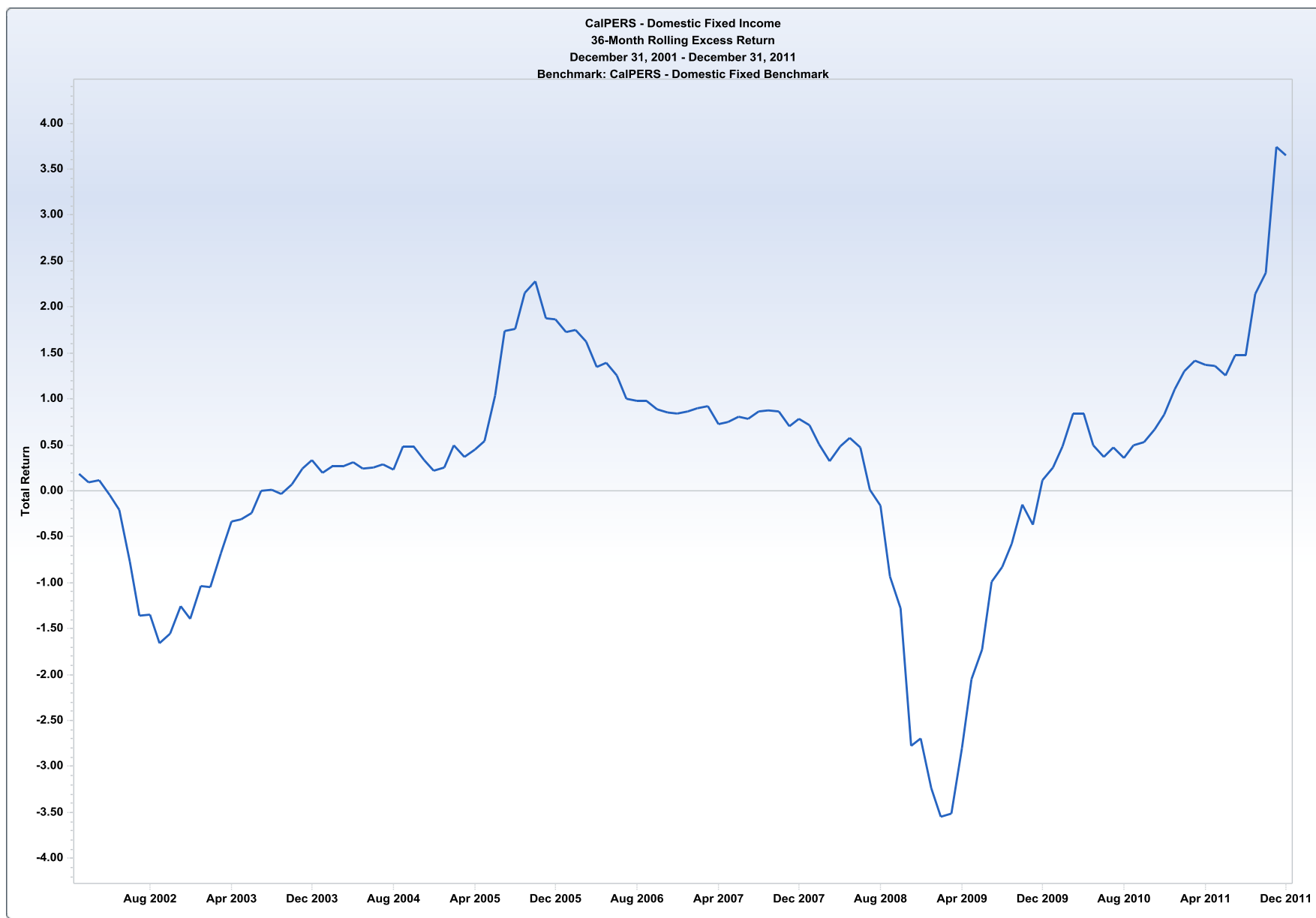


California Public Employees Retirement System
Risk vs Total Fixed Income Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011

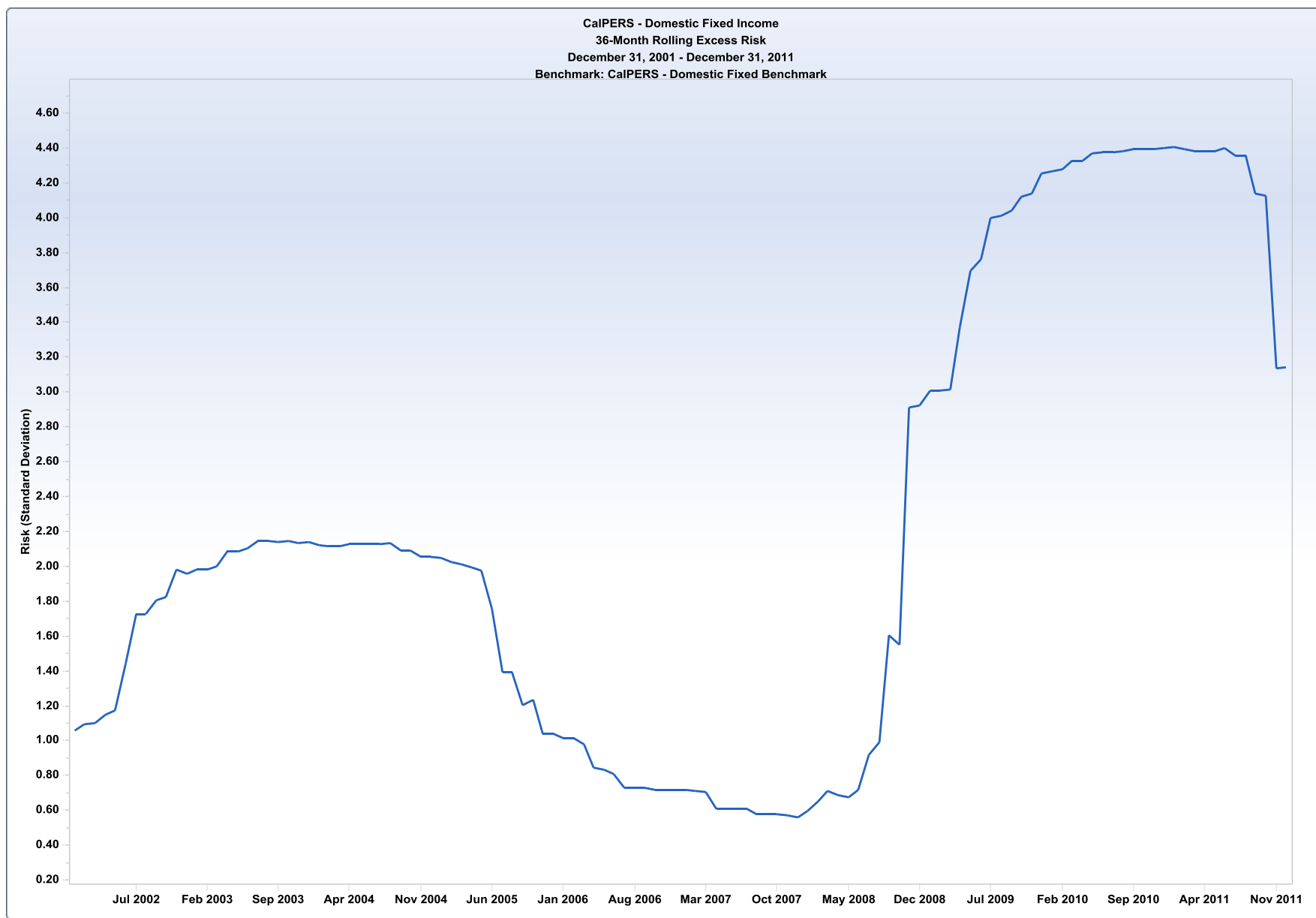


	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	7.17	21	8.86	5
△ Barclays Govt/Credit	4.60	62	6.55	32
B Citi Non-US Gov Bond	10.06	5	7.23	17
Median	5.09		6.40	

US Income – Rolling Excess Returns



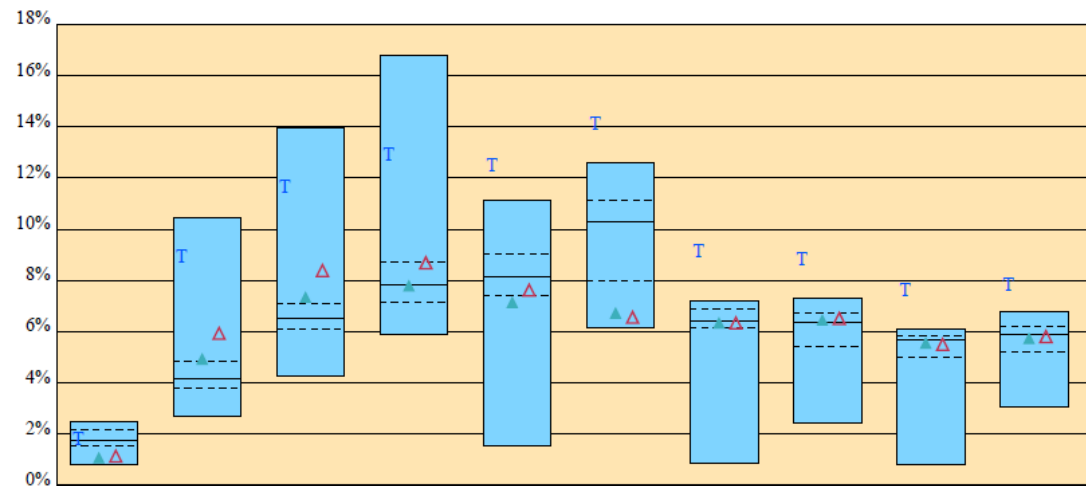
US Income – Rolling Tracking Error



US Income – Universe Comparison



California Public Employees Retirement
US Fixed Income Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011

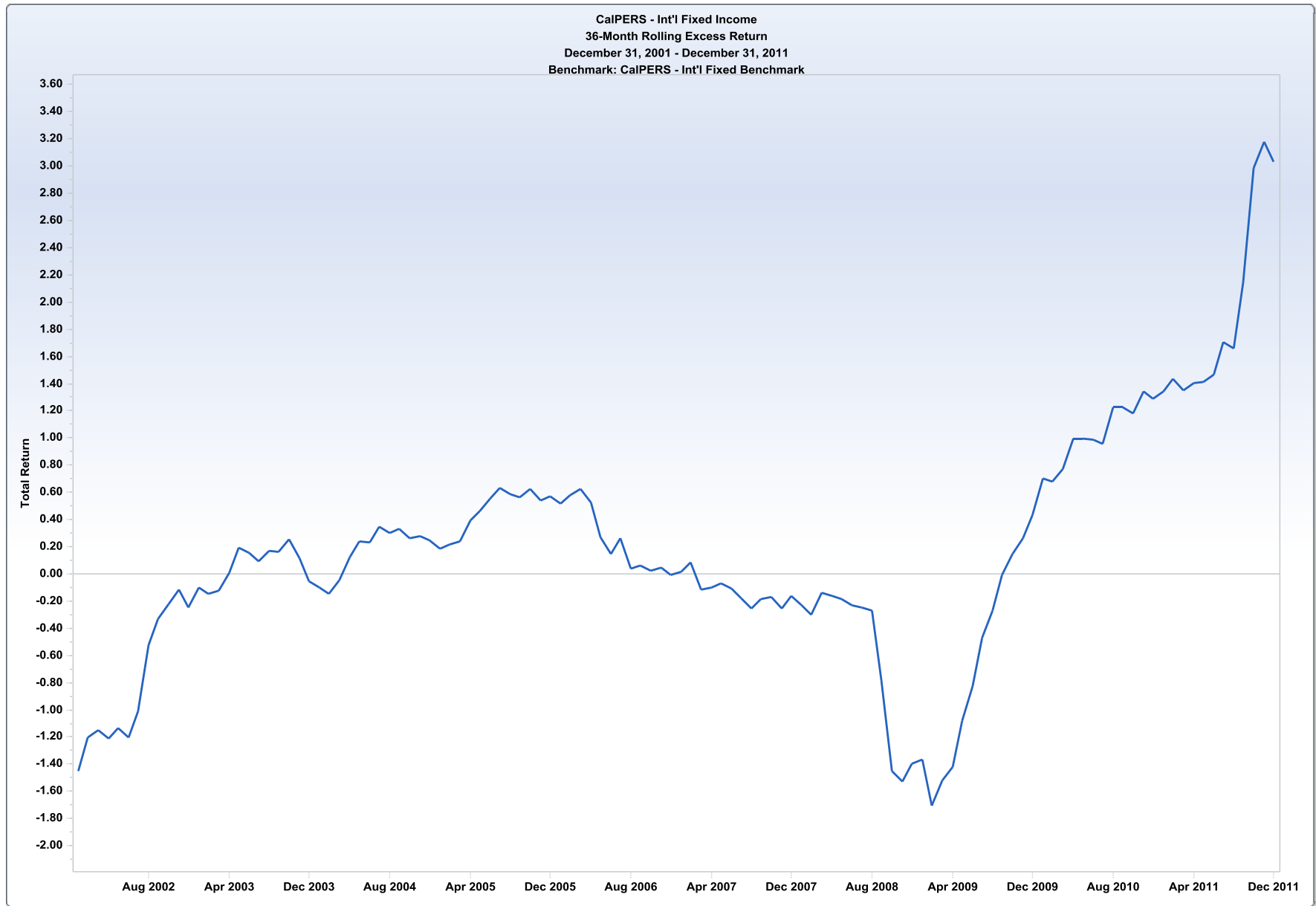


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	2.47	10.43	13.98	16.78	11.15	12.59	7.19	7.30	6.09	6.81
25th Percentile	2.16	4.86	7.12	8.71	9.05	11.14	6.88	6.71	5.86	6.23
Median	1.78	4.16	6.51	7.82	8.17	10.28	6.41	6.39	5.71	5.90
75th Percentile	1.56	3.78	6.12	7.13	7.43	7.97	6.18	5.43	5.00	5.20
95th Percentile	0.79	2.68	4.29	5.89	1.56	6.16	0.84	2.46	0.81	3.06
T Total Plan - Composites	1.84 (46)	8.96 (5)	11.68 (5)	12.92 (5)	12.51 (1)	14.15 (1)	9.17 (1)	8.88 (1)	7.64 (1)	7.84 (1)
▲ Barclays Aggregate	1.12 (91)	4.98 (13)	7.39 (17)	7.84 (45)	7.19 (79)	6.77 (89)	6.39 (60)	6.50 (30)	5.60 (56)	5.78 (58)
△ Barclays Govt/Credit	1.18 (87)	5.97 (9)	8.43 (13)	8.73 (21)	7.66 (62)	6.60 (89)	6.38 (60)	6.55 (30)	5.54 (56)	5.85 (50)

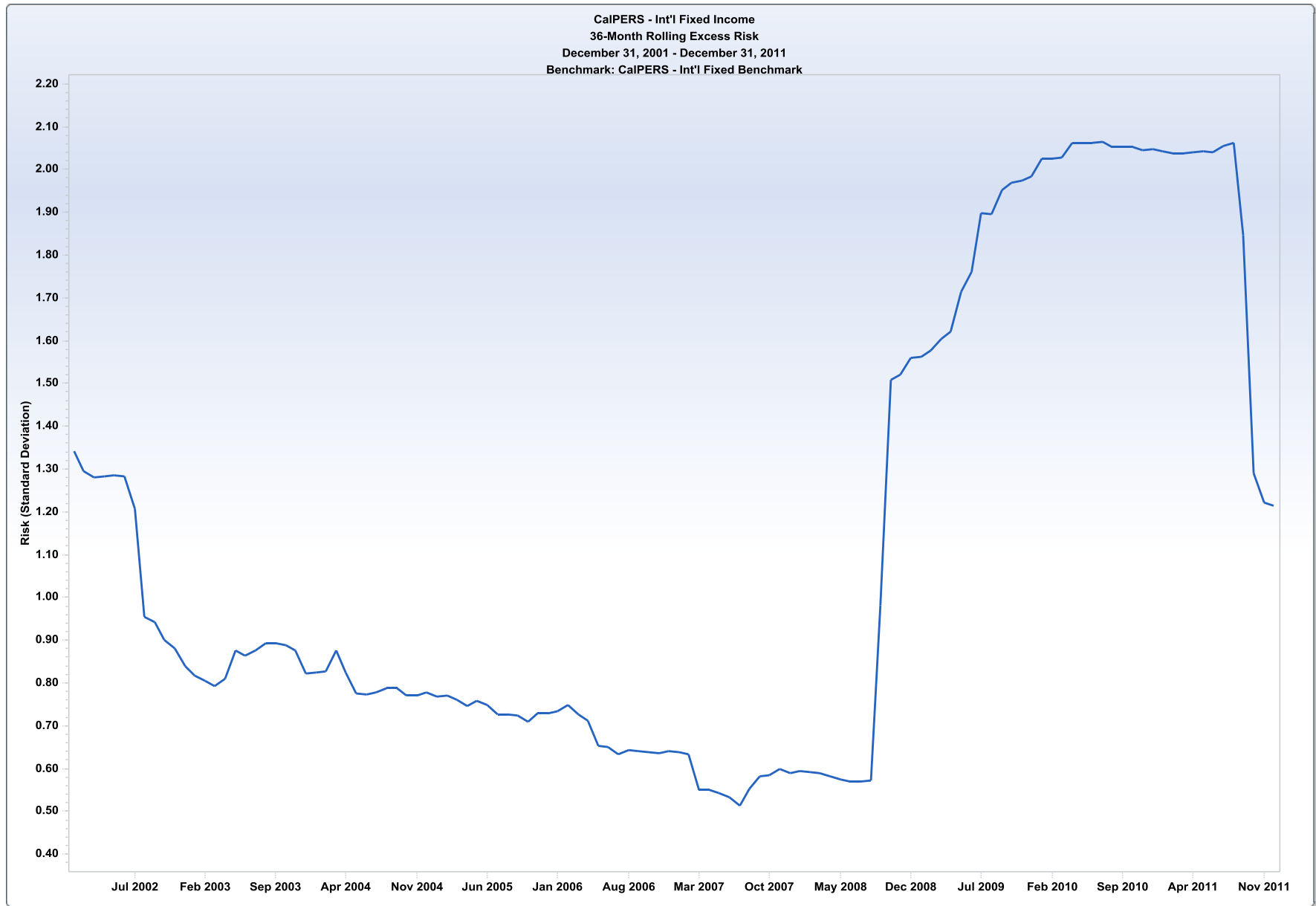
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

International Income – Rolling Excess Returns

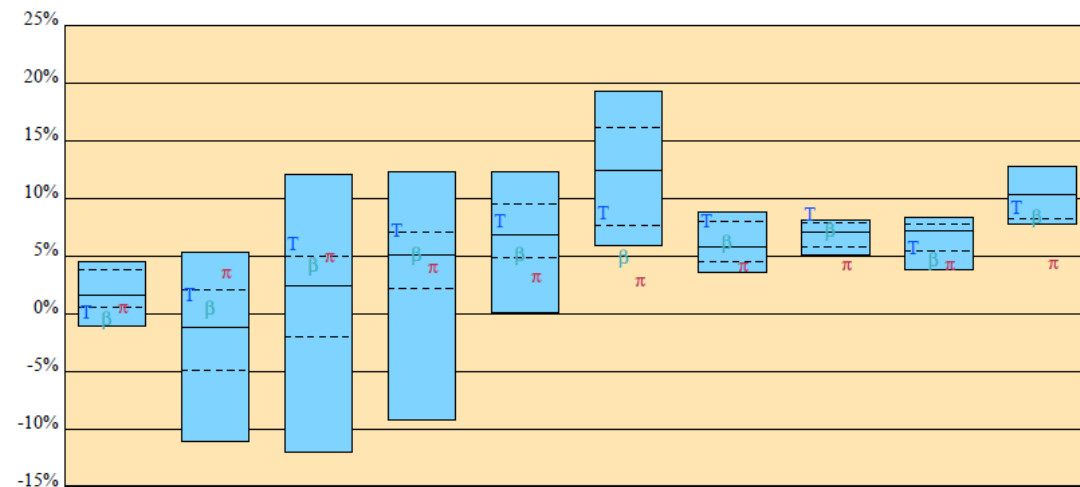


International Income – Rolling Tracking Error



International Income – Universe Comparison

California Public Employees Retirement
International Fixed Income Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	4.53	5.34	12.05	12.31	12.30	19.24	8.83	8.16	8.29	12.78
25th Percentile	3.79	2.06	4.97	7.03	9.45	16.17	7.94	7.82	7.79	12.78
Median	1.60	-1.25	2.39	5.12	6.80	12.37	5.83	7.04	7.22	10.35
75th Percentile	0.49	-4.95	-1.99	2.12	4.89	7.65	4.55	5.76	5.45	8.21
95th Percentile	-1.11	-11.10	-12.06	-9.23	0.10	5.85	3.52	5.14	3.77	7.80
T Total Plan - Composites	0.19 (79)	1.70 (25)	6.09 (15)	7.22 (15)	8.04 (35)	8.75 (56)	8.03 (15)	8.59 (1)	5.68 (62)	9.19 (62)
β Citigroup Non-US Govt Bond	-0.48 (89)	0.47 (37)	4.16 (30)	5.17 (45)	5.19 (65)	4.92 (100)	6.20 (33)	7.23 (41)	4.67 (87)	8.36 (62)
π Citigroup Hedged Non-US Govt	0.60 (70)	3.65 (5)	5.00 (20)	4.06 (55)	3.27 (87)	2.97 (100)	4.21 (87)	4.34 (99)	4.35 (87)	4.43 (99)

Returns for periods greater than one year are annualized.

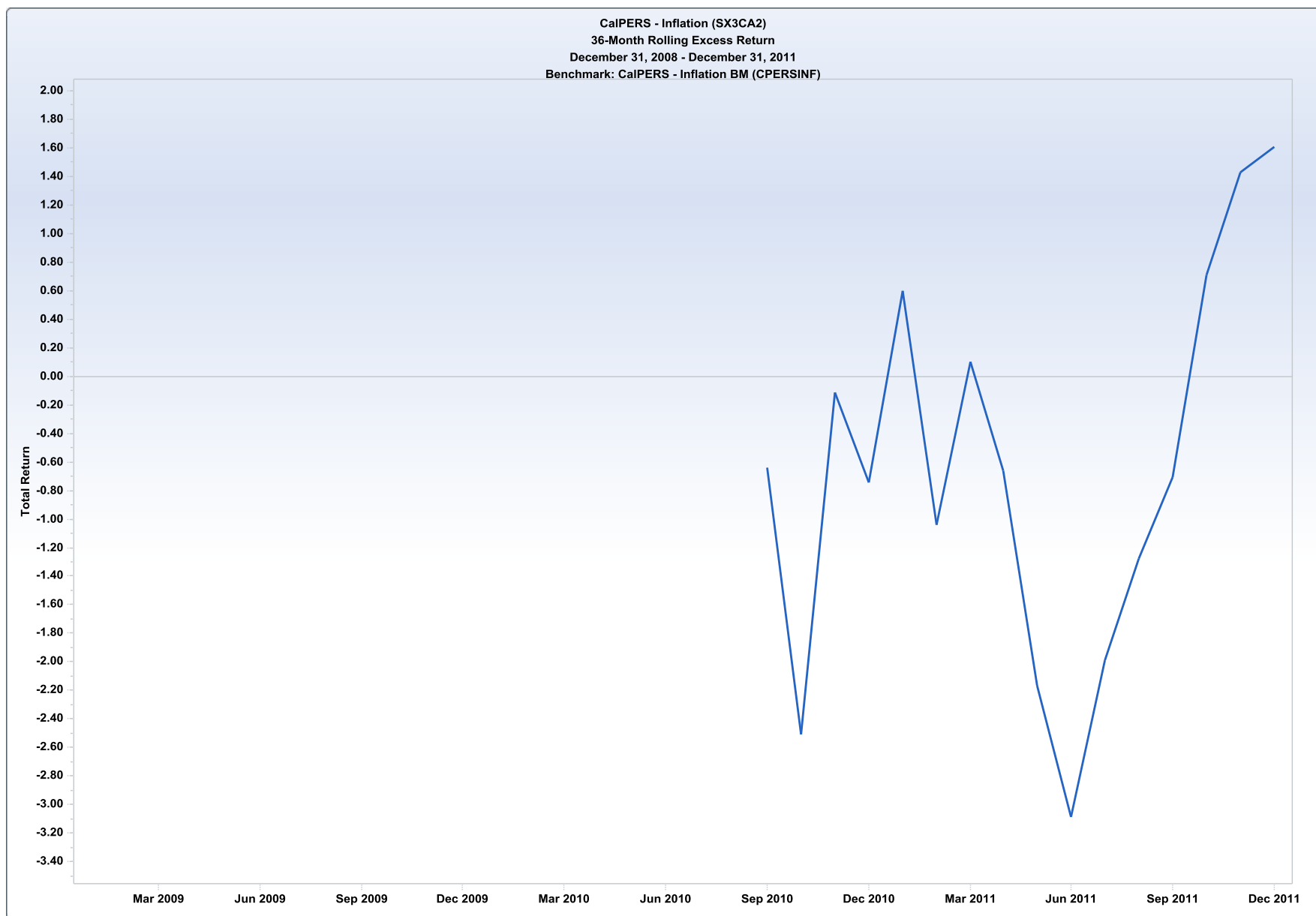
GOF returns are used in universe comparison.

Inflation Performance

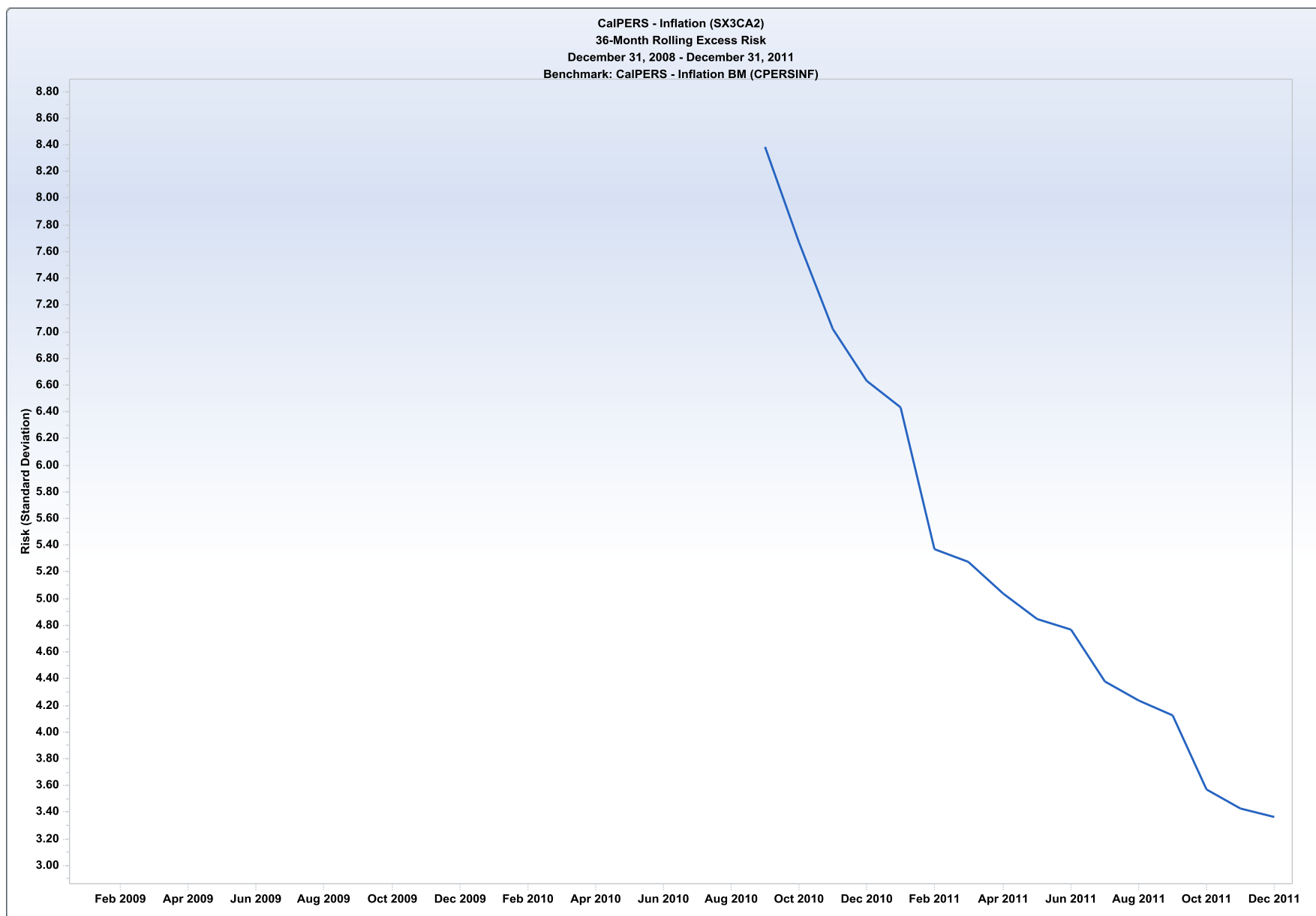


	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR⁴⁹	5-year Sharpe Ratio⁵⁰	5-year Info Ratio⁵¹
INFLATION	7.2	4.5%	8.4%	10.6%	-.-%	-.-%	\$0.6 bil	N/A	N/A
<i>Inflation Policy Benchmark ⁴⁷</i>		4.2%	7.4%	8.9%	-.-%	-.-%		N/A	N/A
<i>Value Added</i>		0.3%	1.0%	1.7%	-.-%	-.-%			
Commodities ⁴⁸	3.4	9.0%	-0.6%	7.6%	-.-%	-.-%			
<i>GSCI Total Return Index</i>		9.0%	-1.2%	6.9%	-.-%	-.-%			
<i>Value Added</i>		0.0%	0.6%	0.7%	-.-%	-.-%			
Inflation Linked Bonds	3.9	2.8%	12.8%	9.9%	-.-%	-.-%			
<i>Custom Benchmark</i>		2.6%	11.7%	9.5%	-.-%	-.-%			
<i>Value Added</i>		0.2%	1.1%	0.4%	-.-%	-.-%			

Inflation – Rolling Excess Returns



Inflation – Rolling Tracking Error

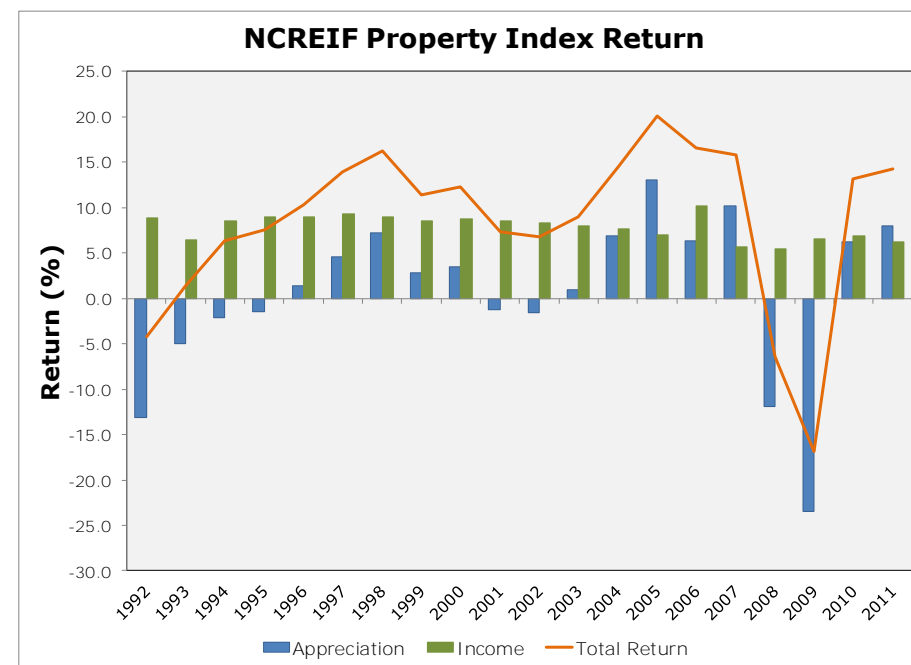
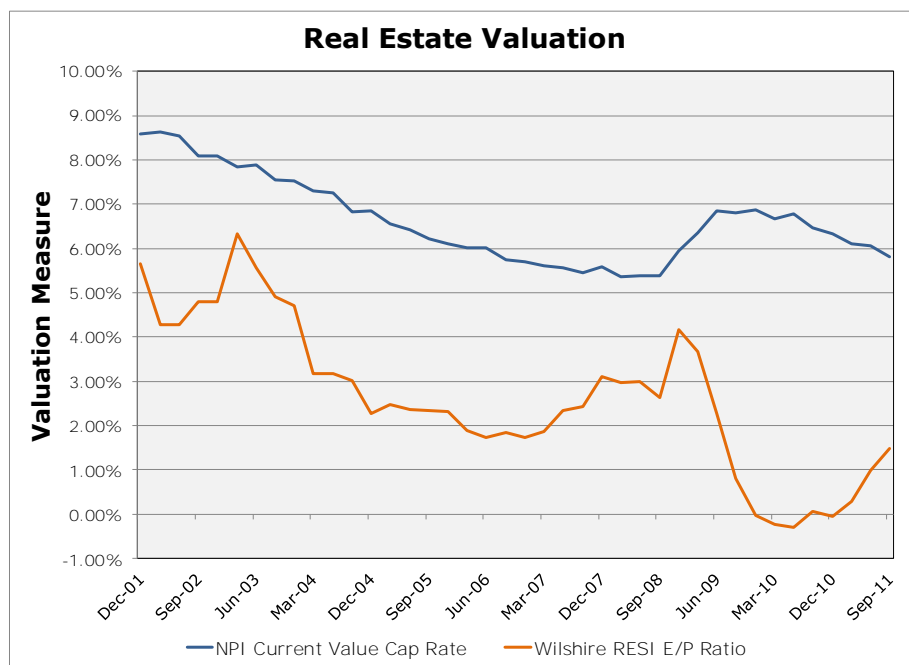


Real Assets



December 31, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
Barclays U.S. TIPS Index	2.7	13.6	13.6	10.4	8.0	7.6
Dow Jones UBS Commodity Index	0.3	-13.3	-13.3	6.4	-2.1	6.6
Global Public Real Estate*	9.8	3.3	3.3	19.9	-3.2	10.5
NCREIF Property Index	3.0	14.3	14.3	2.4	3.1	8.1
NCREIF Timberland Index	0.5	1.6	1.6	-1.2	4.6	7.6
Alerian MLP Index (Oil & Gas)	16.3	13.9	13.9	39.7	14.2	15.5

* Wilshire Global Real Estate Securities from December 2001 to December, 2004. Wilshire Global REITs from 2004 to present.

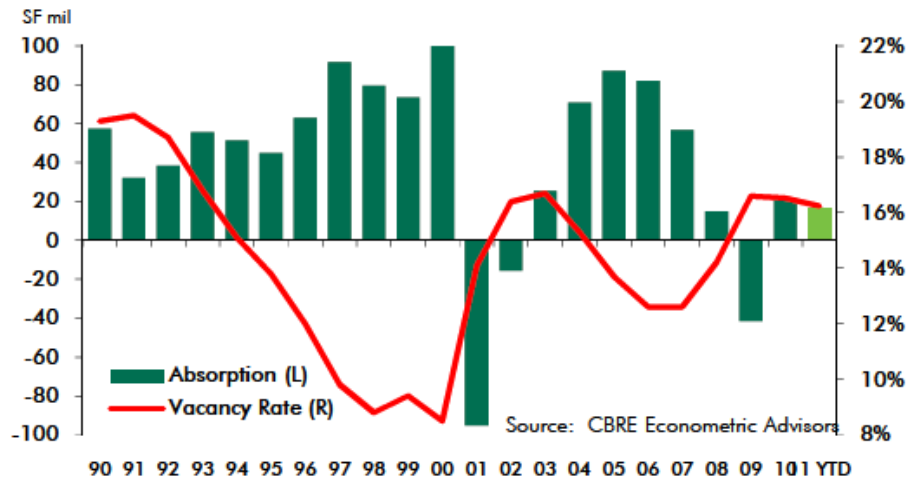


Data sources: Wilshire Compass, National Council of Real Estate Investment Fiduciaries

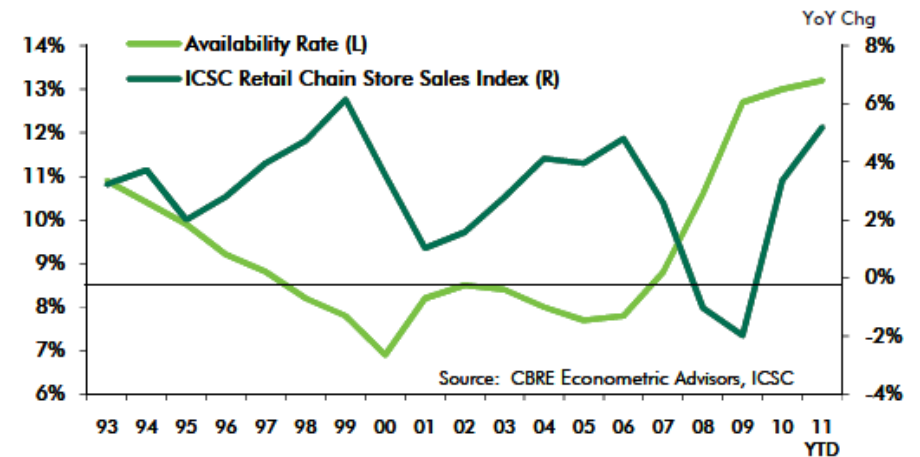
Commercial Property *(as of Q3 2011)*



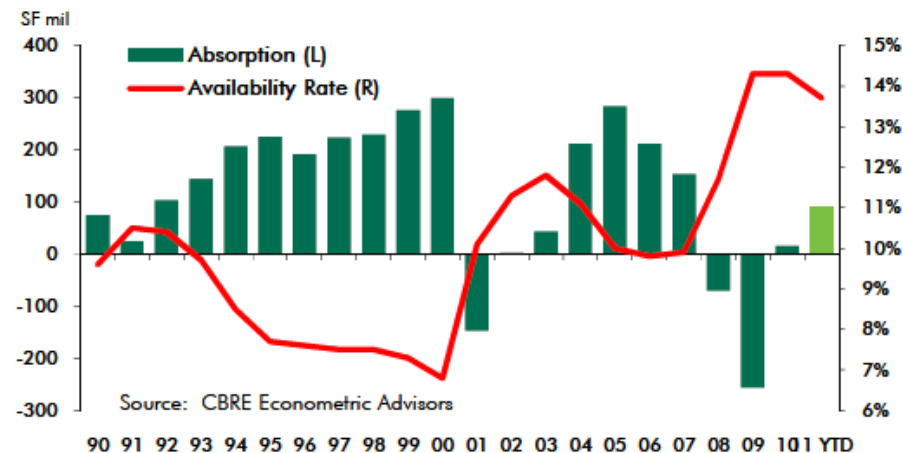
Office



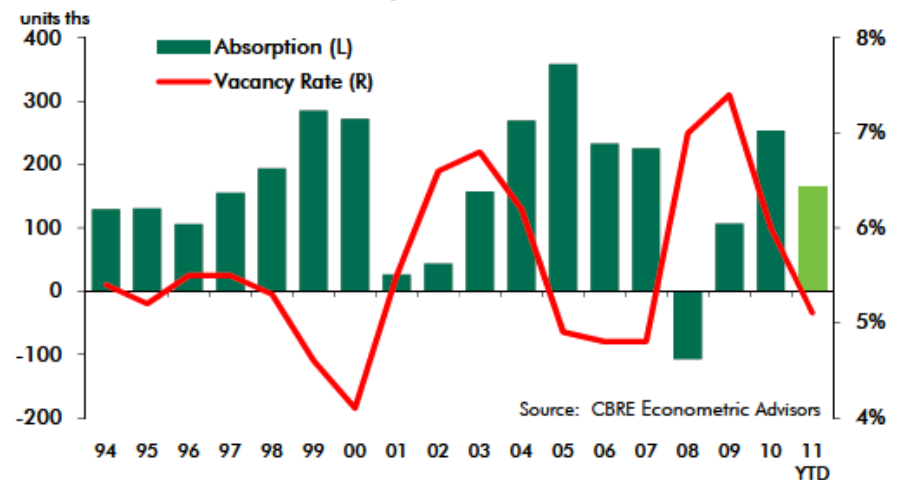
Retail



Industrial



Apartment

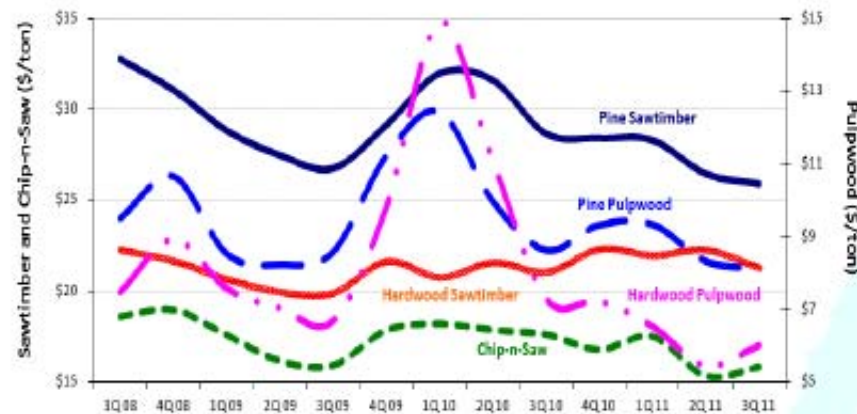


Source: CB Richard Ellis

Timber (as of Q3 2011)

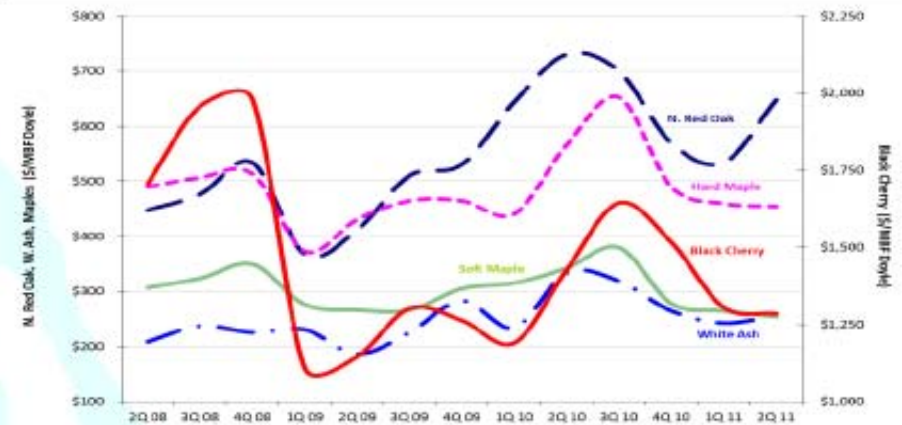


Southeastern Timber Prices



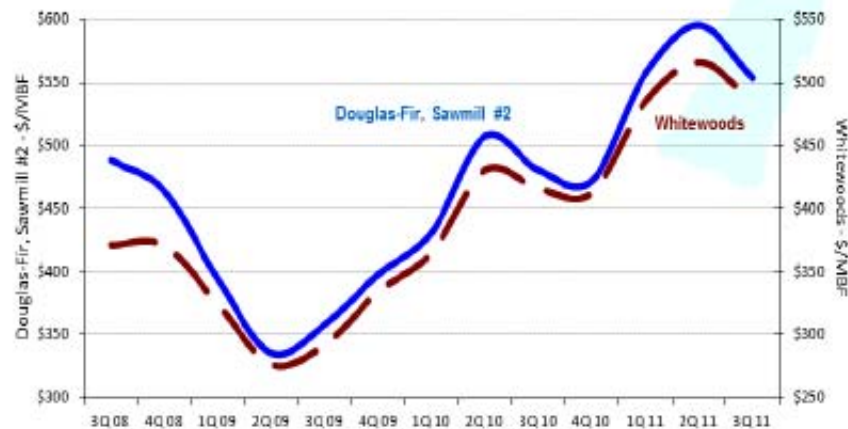
Source: Forest2Market®

Northeastern Hardwood Timber Prices



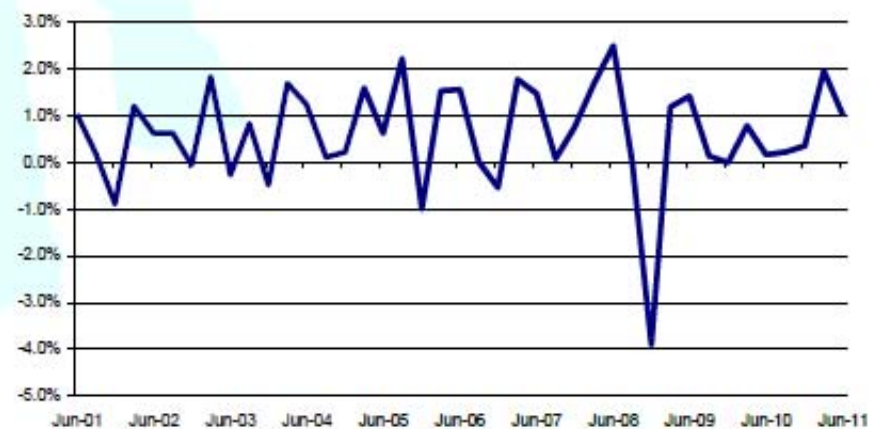
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

Inflation (CPI)



Source: <http://www.bls.gov/cpi/home.htm>

Source: Forest Investment Associates

Real Assets – Performance



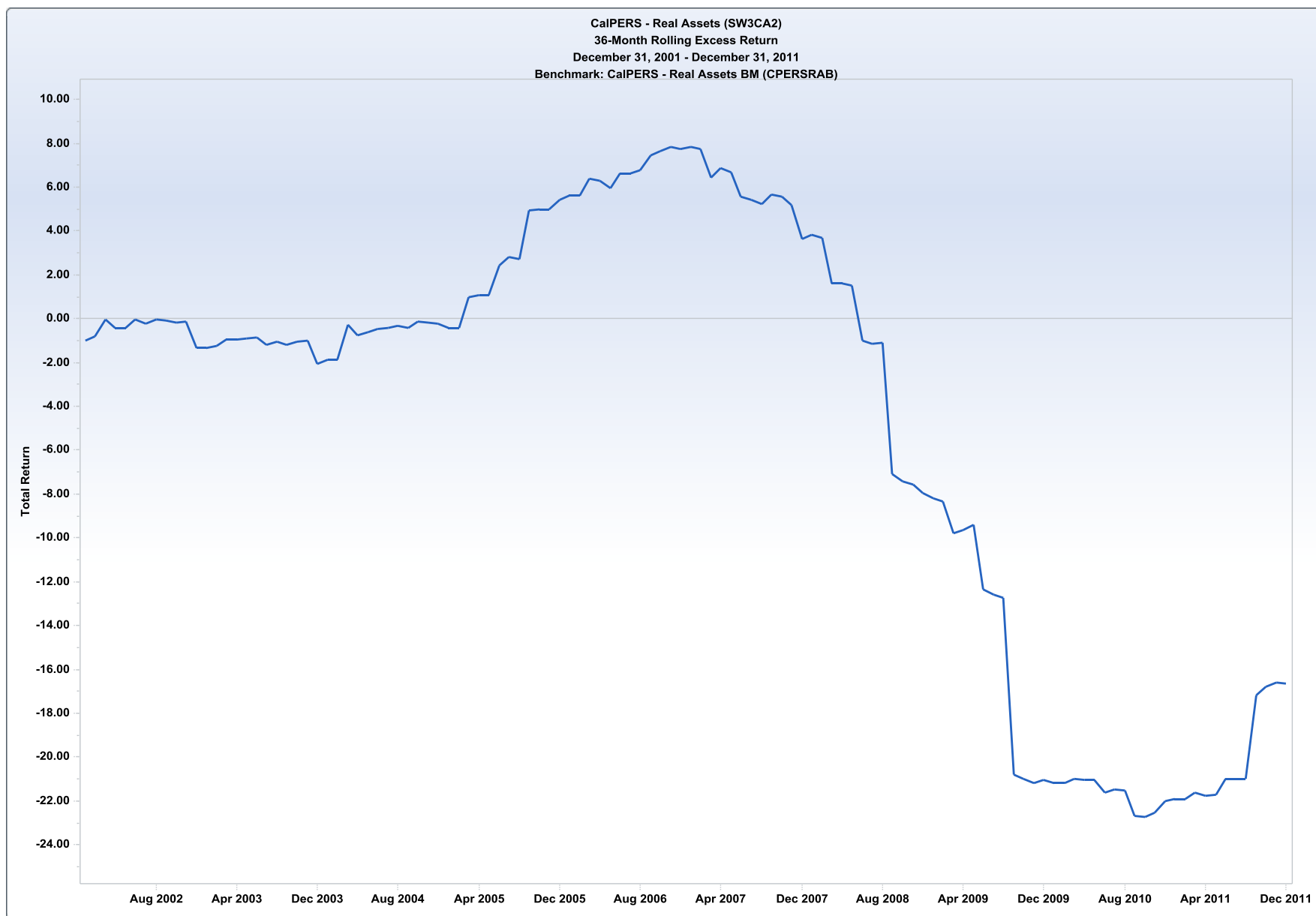
	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR⁵⁶	5-year Sharpe Ratio⁵⁷	5-year Info Ratio⁵⁸
REAL ASSETS	21.8	0.2%	9.9%	-15.8%	-11.5%	2.6%	\$2.5 bil	-0.8	-1.2
<i>Real Assets Policy Benchmark⁵²</i>		3.0%	14.4%	0.9%	5.1%	9.7%		0.5	0.0
<i>Value Added</i>		-2.8%	-4.5%	-16.7%	-16.6%	-7.1%			
Real Estate⁵³	18.8	0.8%	11.3%	-17.8%	-13.2%	1.6%	\$2.6 bil	-0.8	-1.2
<i>Real Estate Policy Benchmark⁵⁴</i>		3.6%	15.8%	2.3%	5.0%	8.7%		0.5	0.0
<i>Value Added</i>		-2.8%	-4.5%	-20.1%	-18.2%	-7.1%			
<i>TUCS Real Estate Median</i>		2.4%	13.0%	-1.9%	-1.9%	7.3%			
Forestland⁵⁵	2.3	-4.4%	-7.3%	-1.6%	-.-%	-.-%			
<i>NCREIF Timberland Index</i>		-0.4%	0.3%	-0.4%	-.-%	-.-%			
<i>Value Added</i>		-4.0%	-7.6%	-1.2%	-.-%	-.-%			
Infrastructure⁵⁵	0.7	-0.4%	47.5%	21.3%	-.-%	-.-%			
<i>CPI + 400 BPS 1Qtr Lag</i>		1.5%	9.6%	7.5%	-.-%	-.-%			
<i>Value Added</i>		-1.9%	37.9%	13.8%	-.-%	-.-%			

Real Estate – Performance

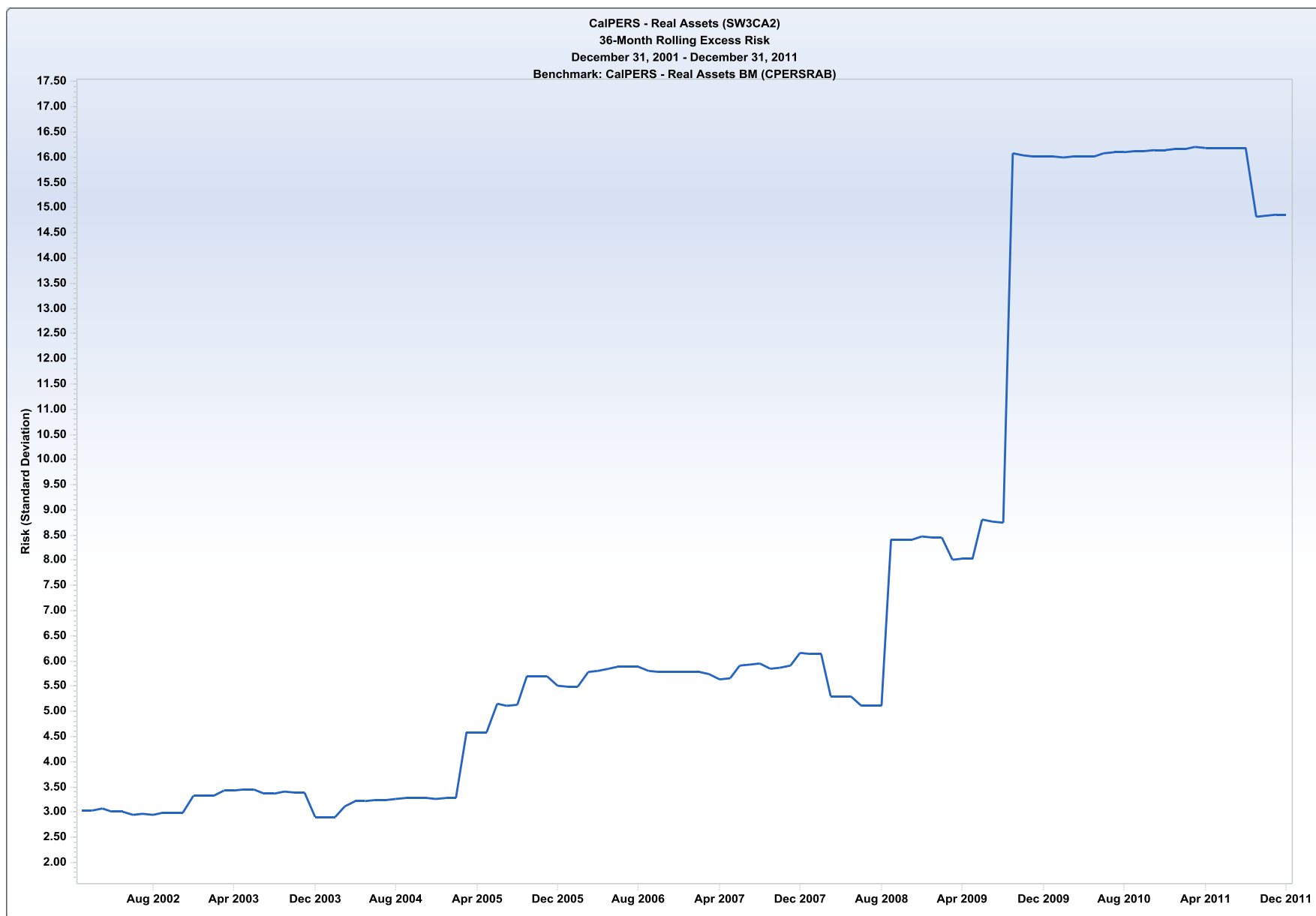


	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR⁶¹	5-year Sharpe Ratio⁶²	5-year Info Ratio⁶³
Real Estate ⁵⁹	18.8	0.8%	11.3%	-17.8%	-13.2%	1.6%	\$2.6 bil	-0.8	-1.2
<i>Real Estate Policy Benchmark ⁶⁰</i>		3.6%	15.8%	2.3%	5.0%	8.7%		0.5	0.0
<i>Value Added</i>		-2.8%	-4.5%	-20.1%	-18.2%	-7.1%			
<i>TUCS Real Estate Median</i>		2.4%	13.0%	-1.9%	-1.9%	7.3%			
Core Real Estate Ex-Public REITS	6.4	1.4%	17.8%	-15.8%	-6.1%	5.7%			
<i>NCREIF Property 1 Qtr Lagged</i>		3.3%	16.1%	-1.5%	3.4%	7.8%			
<i>Value Added</i>		-1.9%	1.7%	-14.3%	-9.5%	-2.1%			
Value Added	1.9	-0.7%	10.3%	-.-%	-.-%	-.-%			
<i>NPI 1 Qtr Lagged + 200BPS</i>		3.8%	18.4%	-.-%	-.-%	-.-%			
<i>Value Added</i>		-4.5%	-8.1%	-.-%	-.-%	-.-%			
Opportunistic	9.2	-0.6%	9.3%	-21.8%	-20.1%	-3.6%			
<i>NPI 1 Qtr Lagged + 400BPS</i>		4.3%	20.7%	2.5%	7.5%	12.1%			
<i>Value Added</i>		-4.9%	-11.4%	-24.3%	-27.6%	-15.7%			
Public REITS	1.2	7.3%	-5.9%	15.7%	-6.3%	-.-%			
<i>FTSE EPRA/NAREIT DE Index</i>		7.4%	-5.8%	16.2%	-5.3%	-.-%			
<i>Value Added</i>		-0.1%	-0.1%	-0.5%	-1.0%	-.-%			

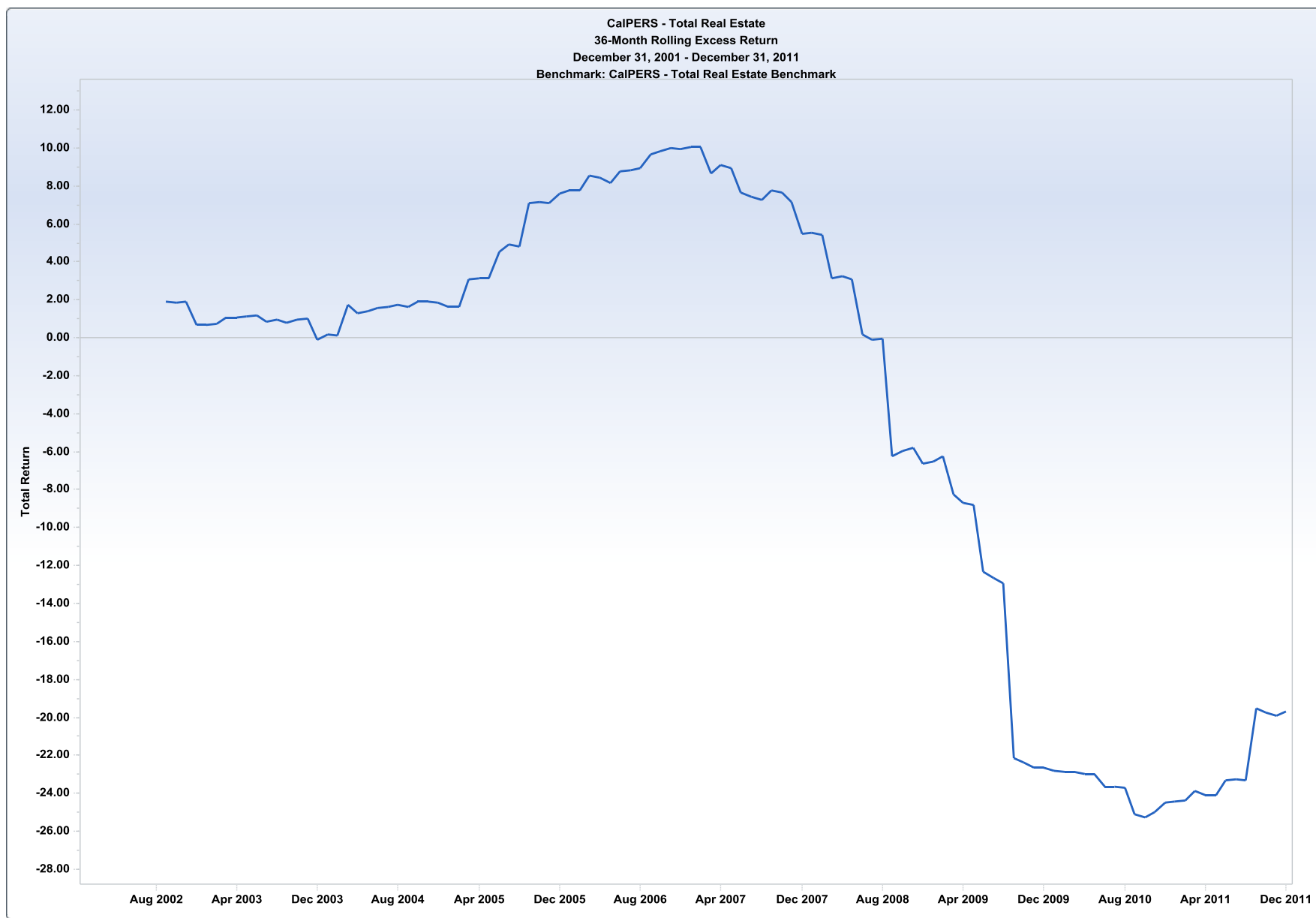
Real Assets – Rolling Excess Returns



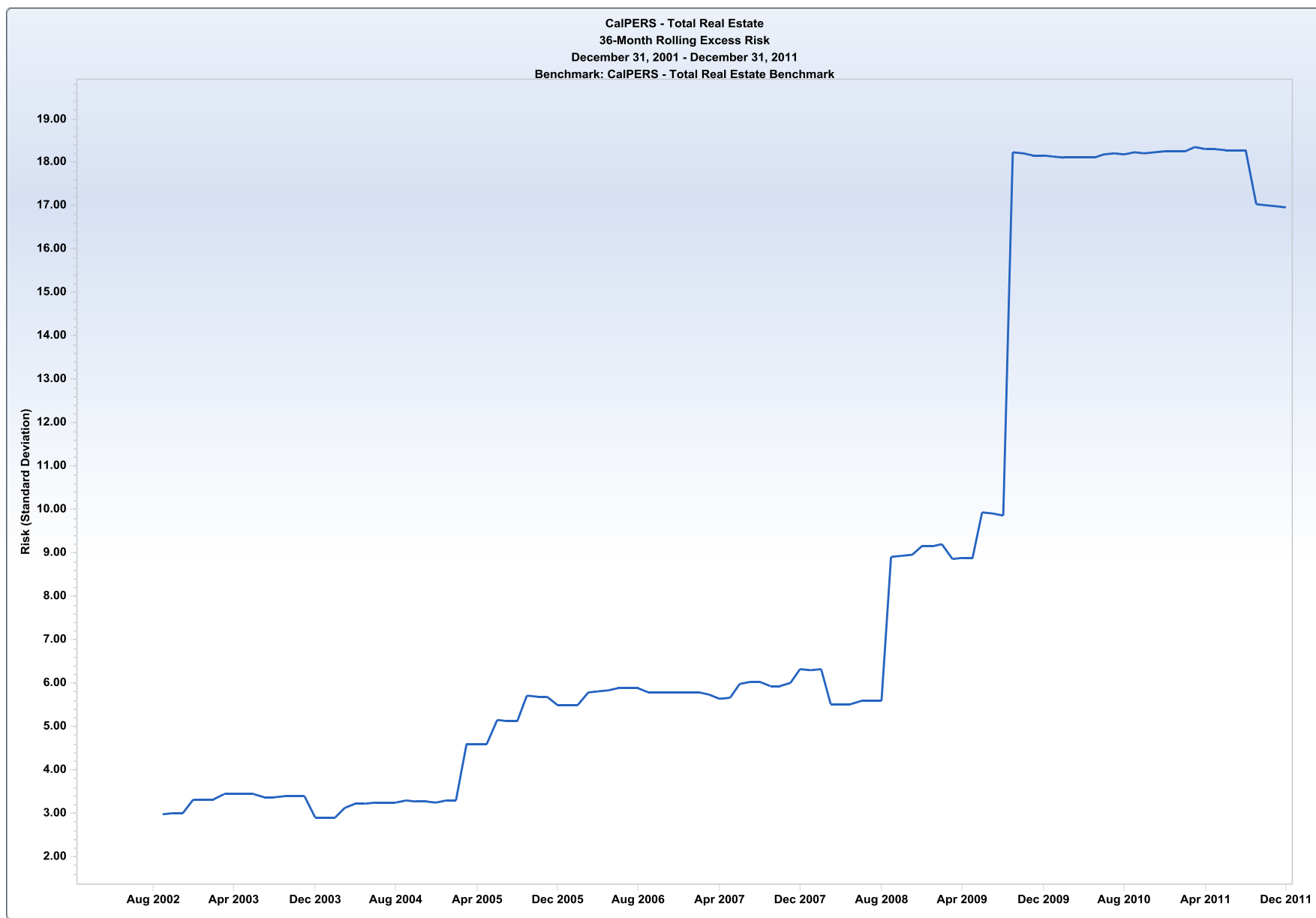
Real Assets – Rolling Tracking Error



Real Estate – Rolling Excess Returns



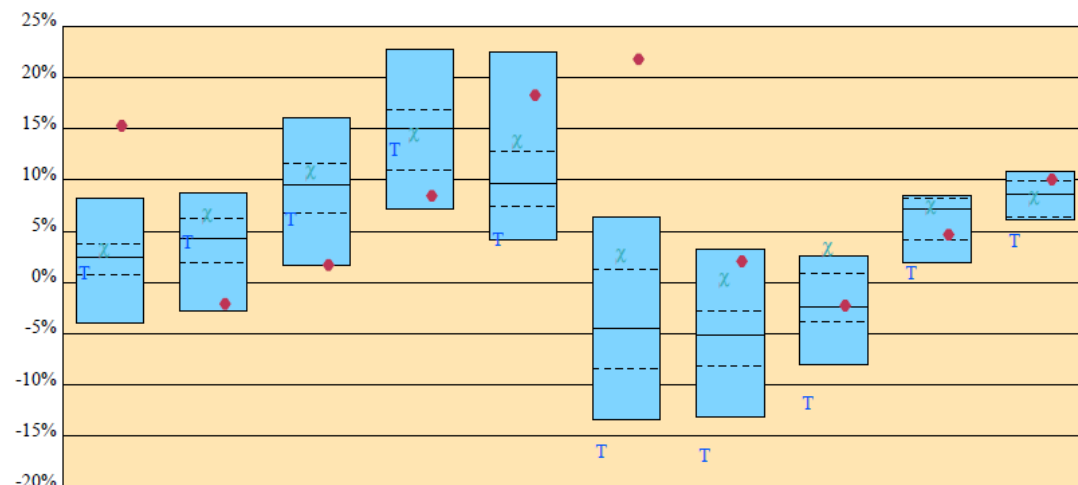
Real Estate – Rolling Tracking Error



Real Estate – Universe Comparison



California Public Employees Retirement
Real Estate Returns of Public Funds > \$10 Billion
Rates of Return for Periods Ending December 31, 2011



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	8.22	8.69	16.08	22.76	22.44	6.34	3.27	2.56	8.50	10.80
25th Percentile	3.76	6.24	11.68	16.86	12.85	1.34	-2.73	0.94	8.27	9.87
Median	2.48	4.36	9.58	15.07	9.68	-4.42	-5.12	-2.38	7.14	8.64
75th Percentile	0.73	1.91	6.79	10.93	7.41	-8.45	-8.14	-3.79	4.10	6.34
95th Percentile	-3.96	-2.79	1.71	7.13	4.19	-13.39	-13.10	-7.96	1.96	6.10
T Total Plan - Composites	1.00 (71)	4.02 (50)	6.17 (78)	12.96 (50)	4.26 (87)	-16.51 (99)	-16.81 (99)	-11.72 (99)	0.90 (99)	4.05 (99)
X NCREIF Property Index	2.96 (31)	6.36 (15)	10.55 (31)	14.26 (50)	13.68 (17)	2.43 (15)	0.13 (5)	3.09 (1)	7.23 (43)	8.06 (58)
● Wilshire RESI	15.40 (1)	-1.99 (81)	1.81 (92)	8.56 (87)	18.39 (9)	21.89 (1)	2.17 (5)	-2.15 (45)	4.77 (58)	10.15 (5)

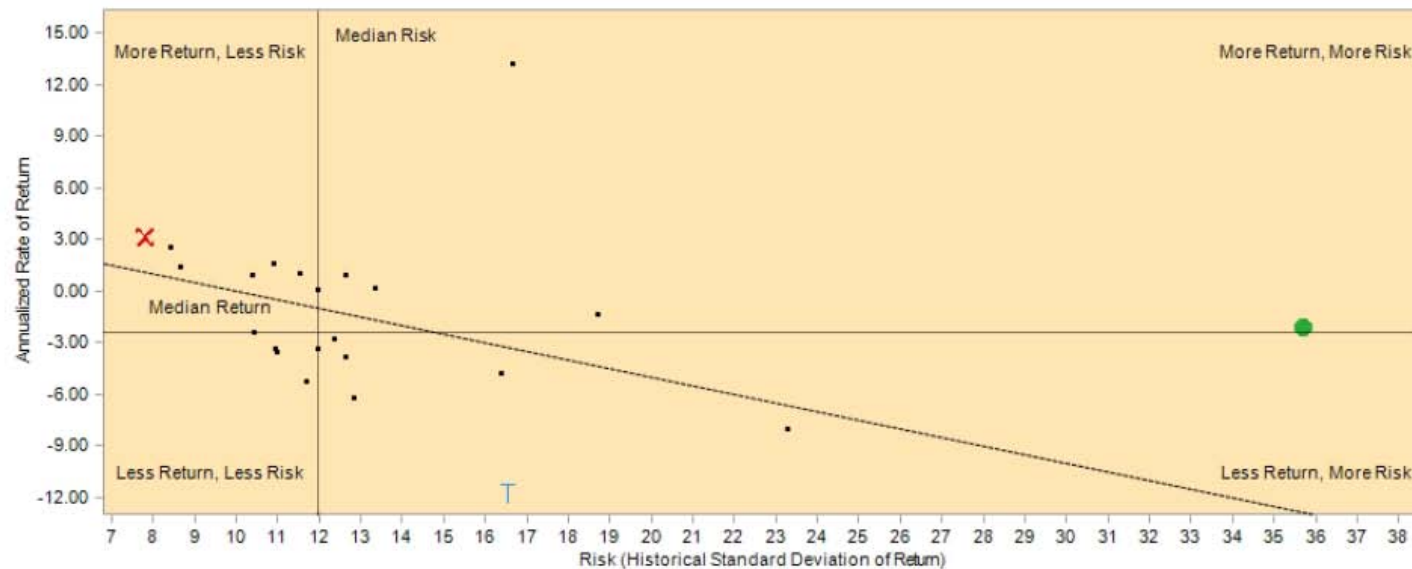
Returns for periods greater than one year are annualized.

GOF returns are used in universe comparison.

Real Estate – Risk and Return



California Public Employees Retirement System
Risk vs Total Real Estate Returns of Public Funds > \$10 Billion
5 Years Ending December 31, 2011



	Risk Value	Risk Rank	Return Value	Return Rank
T Total Plan - Composites	16.55	15	-11.72	99
X NCREIF Property Index	7.81	100	3.09	1
● Wilshire RESI	35.70	1	-2.15	45
Median	11.99		-2.38	

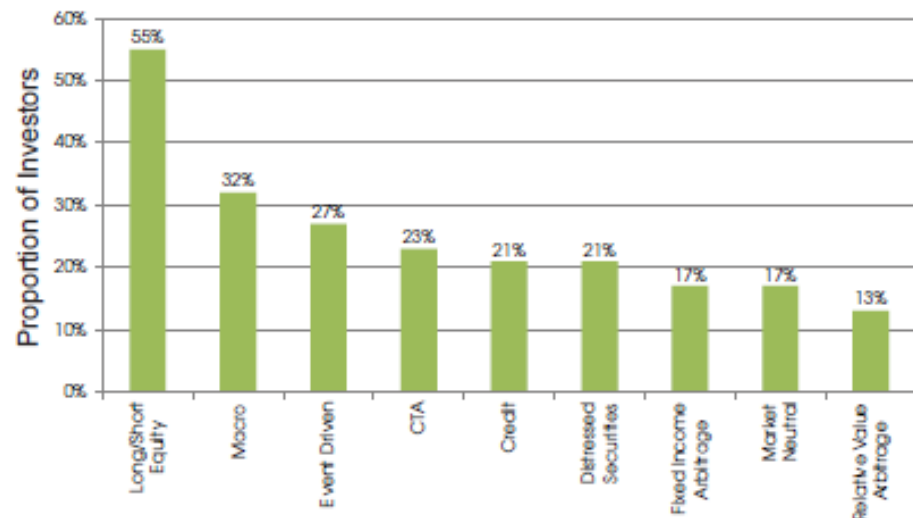
Hedge Fund Performance



December 31, 2011	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
DJ CS Hedge Fund Index	0.7	-2.5	-2.5	8.6	3.2	6.4
Event Driven Index	0.7	-9.1	-9.1	7.2	2.8	7.1
Global Macro Index	0.6	6.4	6.4	10.4	8.6	10.6
Long/Short Equity Index	2.0	-7.3	-7.3	6.6	2.0	6.0
Multi-Strategy Index	1.3	1.8	1.8	11.5	3.1	6.6
Wilshire 5000	12.0	1.0	1.0	14.9	0.1	3.8
MSCI ACWI ex-US (\$g)	3.8	-13.3	-13.3	11.2	-2.5	6.8
Barclays Aggregate Bond Index	1.1	7.8	7.8	6.8	6.5	5.8
Dow Jones UBS Commodity Index	0.3	-13.3	-13.3	6.4	-2.1	6.6

According to a Preqin survey, investors are looking for opportunities primarily in Long/Short Equity Funds in 2012, followed by Global Macro hedge funds.

Chart of the Month: Proportion of Hedge Fund Investors with a Preference for Each Hedge Fund Strategy



Data sources: Wilshire Compass, Preqin

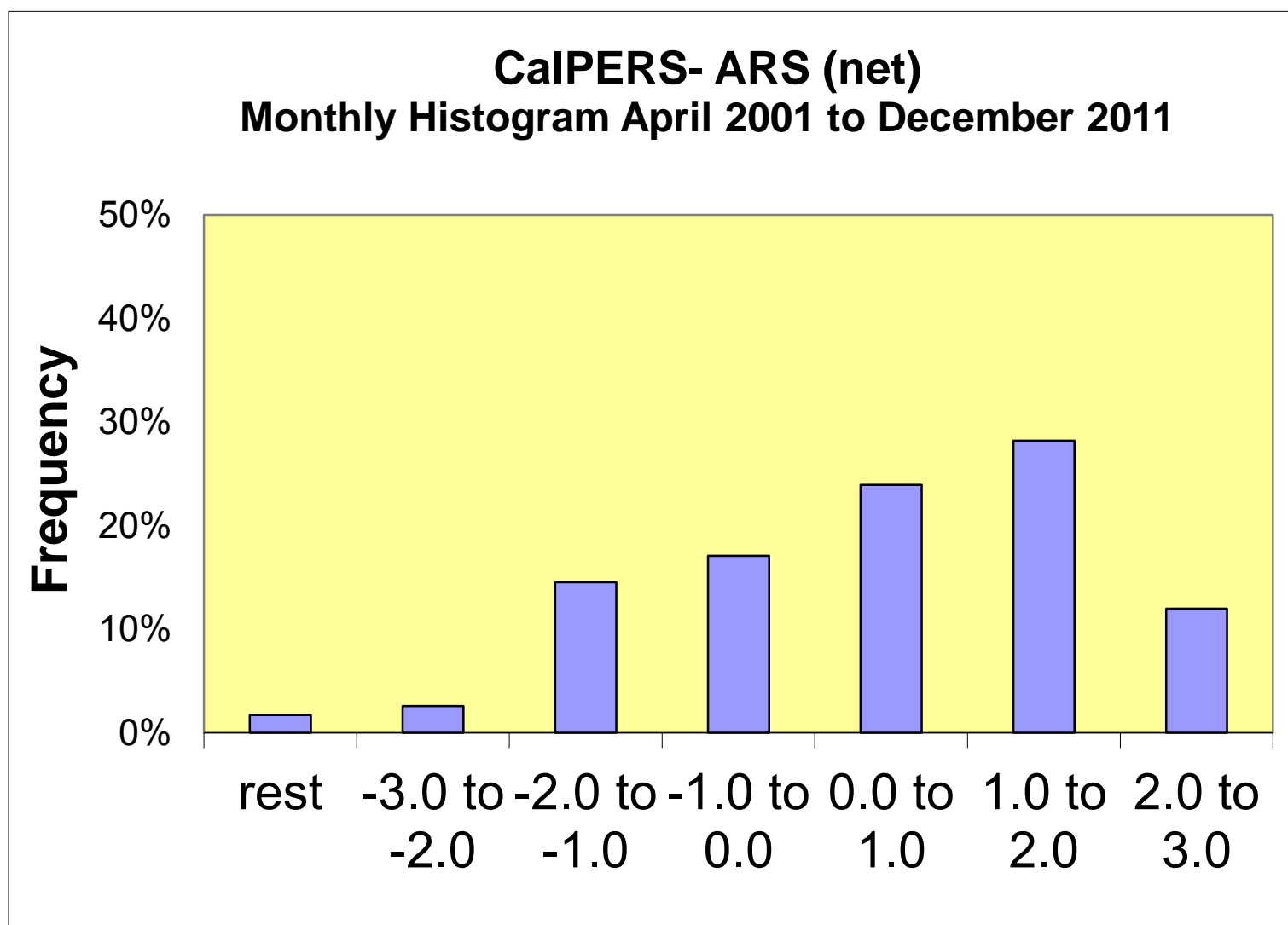
ARS – Distribution of Performance



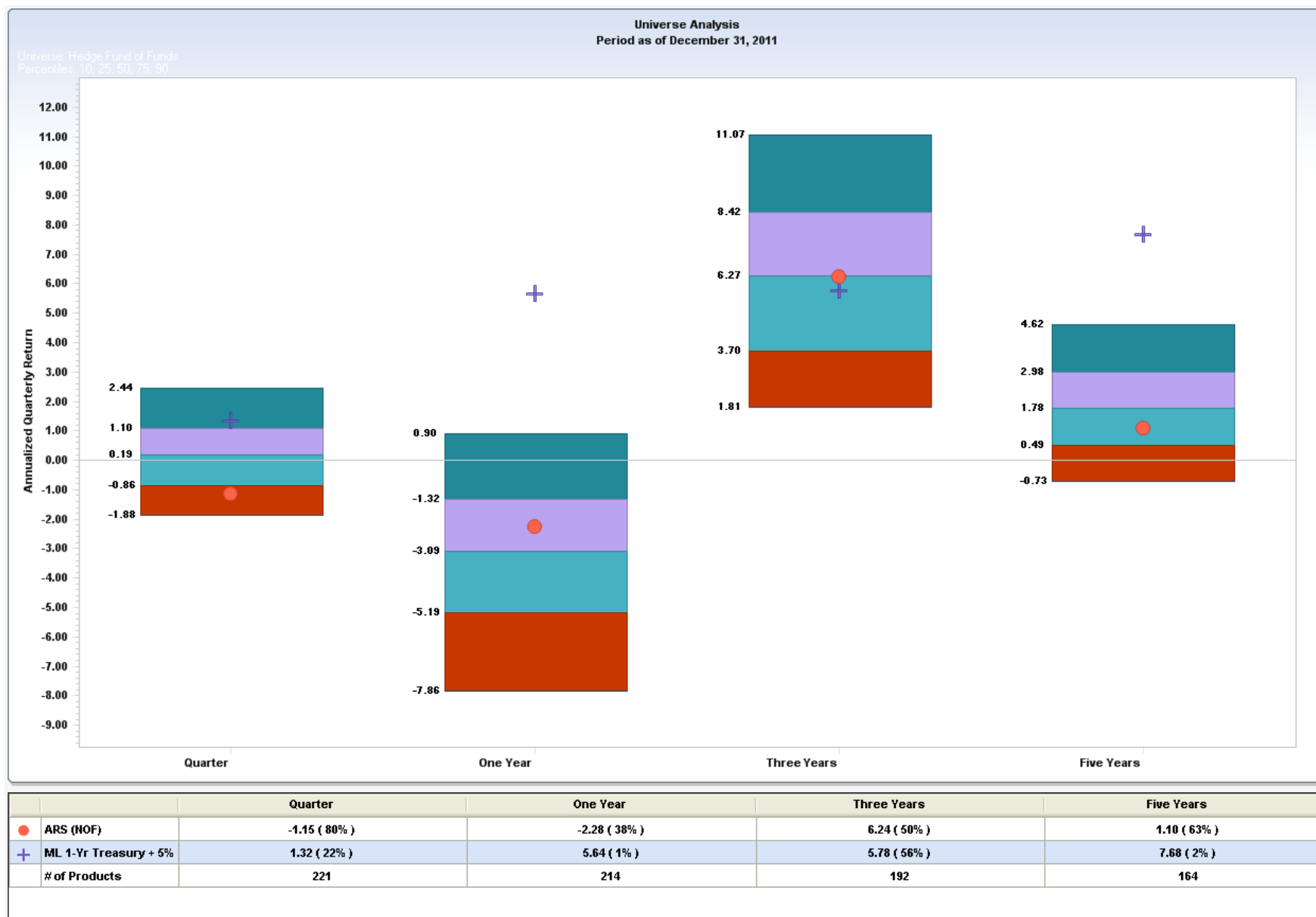
	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>5-Year Info Ratio³²</u>	<u>5-Year Up Capture Ratio</u>	<u>5-Year Sharpe Ratio³³</u>	<u>5-Year Sortino Ratio³⁴</u>
Absolute Return Strategies	5.2	-1.1%	-2.3%	6.2%	1.1%	-0.9	0.1	-0.1	-0.1
ARS Policy Benchmark ³¹		1.3%	5.6%	5.8%	7.7%				
Value Added		-2.4%	-7.9%	0.4%	-6.6%				
Total Direct Investments	3.7	-0.9%	-1.1%	8.3%	1.7%				
Total Emerging Fund of Hedge Funds	1.5	-1.8%	-5.0%	0.6%	-0.1%				
HFRI Fund of Funds Index		0.4%	-4.4%	4.0%	-0.5%				

<u>Rolling Correlations vs. Index</u>					
Percentage of positive	<u>Beta vs.</u>		<u>PERS</u>	<u>Domestic</u>	<u>MSCI AW</u>
<u>Months</u>	<u>S&P 500</u>	<u>W5000</u>	<u>2500</u>	<u>Fixed Index</u>	<u>X US</u>
66%	0.3	0.7	0.7	0.3	0.8

ARS – Histogram of Monthly Returns



ARS – Universe Comparison



ARS – Rolling 3-Year Ranking vs. HFOF Universe

